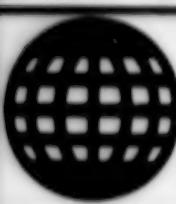


JPRS-CAR-89-053  
25 MAY 1989



FOREIGN  
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# ***JPRS Report—***

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# **China**

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# China

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## GENERAL

### Analysis of Global Nuclear Balance, Probability of Nuclear War

40050378 Beijing MEIGUO YANJIU [AMERICAN STUDIES] in Chinese No 1, 15 Feb 88 pp 35-49

[Article by Wu Zhan 0702 1455: "Nuclear Deterrence"]

[Text] Nuclear weapons, particularly thermonuclear weapons in the form of hydrogen bombs, possess tremendous destructive power unprecedented in history. Reportedly, the explosion of just a few hydrogen bombs would largely wipe out a large city of several million. Furthermore, there is as yet no effective means of defense against a ballistic missile having a nuclear warhead. The two superpowers, the United States and the Soviet Union, have stockpiled more than 20,000 nuclear weapons large and small; consequently, should a nuclear war break out, both sides would sustain hundreds of millions of casualties to say nothing of the damage to property. Destruction would be far greater than in World War II. Who would want to suffer such a catastrophe? It is because people fear nuclear warfare that nuclear weapons play a deterrent role, nations possessing nuclear weapons not daring to start a nuclear war.

The concept of deterrence has existed since ancient times. During the Three Kingdoms period (AD 222-280), [General] Cao Cao's son, Cao Zhi, wrote the following line: "The deterrence of myriad chariots enables China to hold sway." Several hundred years earlier, the great military strategist of the Spring and Autumn Period, Sun Zi, referred to the idea of "subduing the enemy without fighting" in the offensive strategy chapter of his *The Art of War*. Among other things, this included having powerful military forces as a backup force while employing diplomatic means to obtain an enemy's capitulation. Former Prime Minister Helmut Schmidt of West Germany said the following in his book, *The West's Strategy*: "The principle of deterrence is by no means a 20th-century discovery. Both Greece and Rome understood that the use of threats of disaster far surpassing any possible realizable advantage could cow a would-be attacker into submission."

#### I. America's Policy of Nuclear Deterrence

With the advent of nuclear weapons, the term deterrence came to be widely used in the United States and the West. Nuclear deterrence means the use of powerful nuclear retaliation, that an enemy would find difficult to withstand, to deter him from launching an attack. Naturally, nuclear weapons can be used for more than deterrence. For example, they may be used to provide a protective nuclear umbrella for allies, and when nuclear deterrence fails, they may be used in warfare. However, there is no doubt at all that deterrence is their main role. The concept of a protective nuclear umbrella was advanced by the proponents of deterrence. It is intended to insure that allies will not be attacked. However,

should the Soviet Union use its powerful conventional forces to attack Western Europe or even employ nuclear weapons without directly attacking the United States, whether the United States would risk subjecting itself to nuclear retaliation by using nuclear weapons to attack the Soviet Union is a very good question. The question of whether nuclear weapons would be used in warfare should nuclear deterrence fail is merely speculative. There are no indications of such a failure at the present time. Readiness to use nuclear weapons serves another purpose, namely strengthening the effect of nuclear deterrence, giving the impression that should deterrence fail, they will really be used.

The United States believes that nuclear deterrence depends on the following:

- 1). Possession of dependable powerful nuclear forces.
- 2). Willingness to use these forces.
- 3). A realization on both sides that the only issues to be settled through warfare are those affecting the nation's major interests.

Unless one possesses nuclear weapons having a dependable combat capability, empty threats will serve no purpose. Possession of nuclear weapons without the will to use them renders deterrence ineffective. This has to do with credibility. If others do not believe, deterrence will not work. The United States believes it is necessary to have a sufficient number of reliably performing nuclear weapons, and to openly publicize pertinent data about them. The United States also believes that nuclear weapons should have survivability, meaning that in event of a surprise attack enough nuclear weapons could survive to launch a retaliatory counterstrike. For this reason, the United States has placed intercontinental ballistic missiles in hardened underground silos, maintains ballistic missiles that can be fired from submerged nuclear submarines, and has strategic bombers armed with long-range cruise missiles. This triad strategic force cannot be completely destroyed in a single strike. When an international crisis occurs, the United States frequently resorts to movements of its nuclear armed troops, raises the military alert status, and either announces or hints at the use of nuclear weapons to show it possesses the will to use nuclear weapons.

Nuclear deterrence is a little like a dancing couple. Unless both parties cooperate, the dance cannot go on. The power of nuclear weapons is so vast, and their effects so great, that unless a conflict has to do with interests of life-or-death importance to a country, no matter how much posturing a country may do, others will not believe it really intends to use them. Therefore, it is necessary to exhibit such willingness at certain times and on certain issues, and to use all available means to make the adversary believe. During the Korean war, the United States reportedly threatened China with nuclear weapons. If so, how would the Chinese, who did not fear

even death, take this threat? Actually, the United States did not possess many atomic bombs at that time; the number was insufficient to subjugate a country as large as China. Were they all to be used on China, what would the United States use to deal with the USSR? Some small countries are even less threatened by nuclear weapons because they cannot believe that a superpower would use nuclear weapons to deal with a small country.

## 2. Evolution of America's Nuclear Strategy

From the end of World War II until the early 1950's, the United States enjoyed a monopoly on nuclear weapons, and was clearly superior to the USSR. In a 1954 speech, U.S. Secretary of State John Foster Dulles declared a nuclear policy of "large-scale retaliation." By this he meant that the United States would use large-scale nuclear bombings to retaliate against communist countries. Such retaliation would be all-out. It would be targeted against both military objectives and nonmilitary objectives, and against both factories and cities.

When President John F. Kennedy acceded to power in the early 1960's, his defense secretary, Robert McNamara, proposed the nuclear strategy concepts of "assured destruction," "damage limitation," and "flexible response." America's desire to change policy at that time resulted from the USSR's substantial development of nuclear weapons. America no longer enjoyed absolute superiority. Were "large-scale retaliation" to be employed at every turn, this would inevitably lead to nuclear retaliation against the United States.

By "assured destruction" is meant that following a first strike (in order to avoid retaliation, one must first strike strategic attack forces), the United States must retain sufficient nuclear weapons to carry out destructive retaliation (the second strike) against enemy civilian and industrial areas. McNamara maintained that triad strategic forces would be extremely unlikely to sustain complete destruction as a result of a first strike. At least strategic missile nuclear submarines were very likely to survive. Nuclear submarines can remain submerged for long periods of time, and are difficult to spot and attack. Although accuracy of submarine-fired missiles is relatively low, they would be able to strike cities. Since the USSR was readying nuclear forces similar to America's, it could likewise employ mutual destruction against the United States; hence the term "mutual assured destruction." As a result, deterrence of others functioned to deter oneself.

"Damage limitation" is an effort to reduce the destruction caused by nuclear warfare. Initially, McNamara envisioned the use of a nuclear strike to annihilate most of the enemy's nuclear weapons and to prevent reinforcement of his ability to defend himself. However, a nuclear attack is tantamount to the launching of nuclear warfare, so it is not a desirable option. The best defense is active defense, i.e., the use of antimissile systems to bring down missile nuclear warheads (the technology has yet to be

perfected), and the use of an air defense system to interdict intruding bombers. Another method is passive defense, i.e., the building of large numbers of civilian defense shelters. This was not carried out due to the high cost.

"Flexible reaction" entails the division of nuclear counterstrikes into four levels. The lowest level is simply attacking military objectives, and the highest level is all-out nuclear attack. The division of counterstrikes into levels is to allow the American President to select a combat plan on the basis of circumstances. In this regard, the American Department of Defense has correspondingly revised its "single integrated operational plan" (SIOP) in which targets for attack at all levels and combat plans are preplanned.

McNamara laid a foundation for America's nuclear strategy. Except for "damage limitation," which was not taken up because it is unrealistic, his entire strategic thinking has been continued to this day by every American administration. There are two main schools of strategic thinking in the United States. One is the deterrent school, which relies on deterrence to avoid war. The second is the war school, which holds that a nuclear war can be fought, and thus wants plans made to fight it well. Official nuclear strategy has elements of both. The openly publicized policy stresses deterrence, but it also exhibits some warfare ideas. One might say that "assured destruction" is at the heart of America's nuclear deterrence. Without it, no one would be frightened. "Flexible reaction" and SIOP are concrete war plans. The United States cannot destroy others or else it will be itself destroyed. Suicide plans are not convincing. Only a small counterstrike at first, with escalation if that does not work, is fairly credible and able to buttress deterrence. The subsequent "flexible reaction" is a development and improvement of this plan with no change in the main plan.

By the 1970's, the Soviet Union's strategic strength level roughly equaled that of the United States. Most of the USSR's strategic nuclear weapons were land-based intercontinental ballistic missiles whose warheads were large and numerous, posing a serious threat to the United States. Two secretaries of defense at that time, Arthur Schlesinger first, and Harold Brown later, revised the SIOP, refining and adding more levels to it. At that time, America's intercontinental ballistic missile technology was also developing greatly. Not only did it have multi-warhead submissile technology, but hit accuracy had increased markedly. Thus, strikes on military targets developed to include strikes on countersilos. Because of the increase in the number of warheads, the number of targets that could be hit increased, and naturally "flexible response" levels could also be more precisely defined. At the same time, the United States also improved its nuclear weapons command, control, and communications systems, improving their survivability and improving target strike flexibility. Brown put forward the so-called countervailing strategy, meaning a

response corresponding to the intensity of the Soviet nuclear attack, hitting single targets, multiple targets, or making large-scale attacks, going from strikes against military targets to all-out attack.

During the 1980's, after Ronald Reagan became President, the SIOP was further revised. With advances in antiballistic-missile technology, in 1983 he proposed a strategic defense initiative, or SDI. This entailed the building of a huge antimissile strategic defense system to wipe out an overwhelming majority of incoming warheads. He even suggested with great conviction that "assured destruction" would become "assured survival," because the great effectiveness of SDI would make the use of "mutually assured destruction" unnecessary to guarantee peace, and people would not have to live in a "balance of terror." His initiative aroused a great uproar throughout the world, because many people felt that it might lead to a greater nuclear arms race. Western Europe feared that once the United States had solved the problem of its own defense, it would withdraw the protective nuclear umbrella and be unconcerned about Western Europe's defense. Because of its technological backwardness, the USSR feared it would lose out in the strategic defense race; and if it did not take part in the race, it feared being reduced to an inferior position. Reagan's optimistic estimate proved to be a bit premature. SDI research during the past several years has shown that numerous key technologies cannot easily pass muster. Were an incompletely developed preliminary SDI system to be deployed, not only would a great military expenditure be required, but not many problems would be solved. Thus, the U.S. Government announced that for the foreseeable future, "assured destruction" would continue to be the main strategy, and SDI would function to bolster deterrence.

### 3. The Soviet Response

Since the U.S. nuclear deterrence policy plays mostly on psychological fears, does the USSR hold a similar view? If the USSR does not accept this view, nuclear deterrence is of no use.

Soviet nuclear weapons keep pace with America's. Reportedly, the USSR stole American technology to develop an atomic bomb, and Soviet nuclear strategy is also a reaction to American nuclear strategy.

When the United States held absolute superiority in nuclear forces, the USSR was very worried about being hit with a nuclear strike; consequently, the USSR hastened research and development and the deployment of nuclear weapons. Although Nikita Khrushchev said in 1956 that war can be avoided because the USSR's military forces had grown strong, the USSR always felt that should war occur, it would certainly be a nuclear war. It also believed that under those circumstances, it would be best to gain the initiative with a first nuclear strike in order to reduce the USSR's losses.

Subsequently, the USSR rapidly developed nuclear weapons. In 1957, the USSR patched together some components to beat the United States in the testing of intercontinental ballistic missiles, and in 1959 it established strategic rocket forces. Then in January 1960, in a report to the Supreme Soviet, Khrushchev said: "if any country or group of countries plans to carry out a surprise attack on a power that possess nuclear and rocket weapons...will it be able to render ineffective all the weaponry and all the rockets on the soil of the country attacked? Of course not. If the country attacked is a sufficiently large country, it will be able to retaliate against the aggressor." It was not without a feeling of pride that Khrushchev set forth his view of nuclear deterrence, because the USSR had been first to get intercontinental ballistic missiles. Actually, however, at that time, it was able to deploy only several crude missiles of this type whose technological performance was not fully developed. At that time, the USSR deployed mostly intermediate-range missiles of insufficient range to reach the United States. The United States really felt it had fallen behind and talked about the "missile gap." It later found that this was not the case at all. After 1957, the United States very quickly surpassed the USSR. In 1962, in an adventurous move, Khrushchev transported intermediate-range missiles to Cuba in an effort to threaten the United States. The result was that, under pressure from America's powerful forces, he could only withdraw, crestfallen.

After 1966, its fairly great advances in nuclear weapons increased Soviet confidence. Possibly because of the U.S. "flexible response" strategy, the USSR felt that the United States also feared nuclear war, and it tended to believe that a nuclear war would not necessarily be fought. It no longer mentioned very much gaining the initiative by striking first.

During the strategic arms limitation talks in Helsinki during November 1969, the Soviet delegation announced that "even should one side sustain an attack first, it would doubtlessly be able to retain the capability to launch destructive retaliation; therefore, we all agree that a war between two countries would be catastrophic for both. For the party that decided to begin the war, this would amount to suicide."

In 1973, Soviet Fleet Admiral (?Gershkov) wrote the following in the second issue of "Collected Naval Works": "The survivability of underwater means of delivery is much higher than for land-based launch vehicles, and they are a more effective deterrent. They are a constant threat to aggressors. When an aggressor understands that nuclear retaliation from the ocean is inescapable, he may be forced to halt the initiation of nuclear war."

The above quote shows that the Soviet Union's view of nuclear deterrence is about the same as that of the United States. After the Soviet Union attained parity with the United States in nuclear forces during the

1970's, it constantly reiterated that it did not seek dominance. At the 26th Soviet Party Congress in 1981, Leonid Brezhnev said that attempts to surpass the adversary in an arms race, or the expectation of winning victory in nuclear warfare is dangerous madness. In 1985, after Mikhail Gorbachev acceded to power, he also said that there could be no victor in a nuclear war. He felt deeply that the Soviet Union's economic problems were grave, and that reform was necessary to effect a change. This required a lightening of the heavy burden of military expenditures and a stable international environment. Thus, the USSR actively pursued nuclear weapons reduction and advocated a slackening of the nuclear arms race.

In the United States many people suspected that the USSR was preparing to fight a nuclear war. Indeed many Soviet writers on nuclear strategy talked about the USSR being able to fight and win a nuclear war. During the 1960's, for example, Marshal Sokolovsky's book, *Military Strategy*, contained a discussion about fighting a nuclear war. The writer felt that this should be neither surprising nor alarming. Most of those who discuss nuclear war in the USSR are military persons. Except for supreme party and government leaders, civilians regard nuclear strategy as a forbidden zone; since they do not understand military matters, they never touch on this realm. Since it is the military who discuss nuclear strategy, quite naturally they study how to fight a nuclear war since this is their function. The situation in the United States is different. In the United States, it is civilians who take the lead in discussing nuclear strategy. Initially, the American military did not touch this topic. Defense Secretary McNamara was a nonmilitary person who relied for his strategy on a group of researchers in the Rand Corporation. In American universities too, quite a few research units studied nuclear warfare. America has a long tradition of civilians deciding military affairs, and it has not been until recently that the military paid attention to strategic studies. You say the USSR is prepared to fight a nuclear war, but hasn't the U.S. Department of Defense also drawn up a SIOP for nuclear warfare? There is not a country in the world in which the defense department does not consider how to fight wars. It is their duty to do so. Whether to fight or not is a decision of the supreme authorities.

#### 4. Nuclear Policy of Secondary Nuclear Nations

Secondary nuclear nations are nations whose overall strength is moderate, but who also possess nuclear weapons. Their nuclear strength is very small ranging between only one-tenth and one-twentieth that of the superpowers, for example. However, they also play a deterrent role. The difference is that the nuclear strength of secondary nuclear nations is markedly of a self-defensive rather than coercive character. Because of the power gap, they cannot launch a first strike against superpowers, because to do so would mean their utter annihilation.

Once a secondary nation has a certain number of nuclear weapons and takes certain actions to conceal and protect them so that they will not be wiped out entirely by a superpower first strike, a few score or even just 10-odd surviving weapons can be used in a counterstrike. Though the counterstrike would be unable to annihilate the adversary, explosion in large cities could produce serious destruction. Therefore, despite their not very large numbers and their not very high target precision (high precision not being necessary, in any case, when they are not being used to attack hardened underground silos), these weapons are still able to play a deterrent role. In a situation of mutual confrontation between two superpowers, in particular, when they cannot employ a substantial portion of their nuclear weapons to deal with secondary nuclear nations without weakening their capabilities against the main enemy, the deterrent role of secondary nuclear nations is increased.

The term secondary nuclear nations applies specifically to the United Kingdom, France, and China. Let us talk first about the United Kingdom. The United Kingdom is a NATO member, and is militarily allied with the United States against the Soviet Union. However, it does not want to rely entirely on America's protective nuclear umbrella, but wants to have an independent nuclear force. The reasons why the United Kingdom wants to do this are as follows: First, nuclear weapons can strengthen the United Kingdom's political and military position. Second, it feels the American nuclear umbrella is not dependable. Should the USSR use superior conventional forces in an attack, the United States would not necessarily risk annihilation by using nuclear weapons to counterattack the USSR. Sooner or later the United States will remove its forces from Europe, and when this happens, possession of some nuclear weapons will provide some security support. The United Kingdom's nuclear weapons consist principally of ballistic missiles launched underwater from submarines (purchased from the United States). They have very strong survivability. France has even less confidence in the United States. Though still a NATO member, it has withdrawn from militarily integrated organizations, and maintains definite independence. France believes that reliance on the American nuclear umbrella will lead to political dependence. Such a relationship would open Western Europe to the effects of United States-USSR relations. Should a nuclear war occur between the United States and the USSR, even though not brought about by European issues, Europe might become embroiled. Consequently, France annually spends approximately one-third of its military expenditures on nuclear weapons. France's nuclear forces include land-based intermediate range missiles, submarine missiles, and nuclear bombers, all of which France itself has developed and produced.

In talks between the United States and the Soviet Union on intermediate range missiles, at first the USSR insisted that the United Kingdom and France also dismantle their intermediate range missiles, otherwise the USSR should also retain a like number of these kinds of

weapons. Because the United Kingdom and France insisted that their intermediate range missiles were independent, the USSR finally agreed that the American-Soviet negotiations would not include British and French weapons.

The writer believes that though both the United Kingdom and France are NATO members, their nuclear weapons should not be regarded in the same way as Soviet nuclear weapons. First of all, the United Kingdom's and France's intermediate range missiles are few in number and poor in quality. For the foreseeable future, they might not be compared with the Soviet Union's. Reductions should be primarily a matter between the United States and the USSR. Second, the United Kingdom's and France's nuclear forces are defensive. In no case is it possible to imagine that either country would use nuclear weapons in a first strike against the USSR, thereby bringing about their own annihilation. Only in event of a Soviet attack on western Europe might the United Kingdom and France employ nuclear weapons. Therefore, the United Kingdom's and France's nuclear weapons should be separated from the American-Soviet nuclear arms race.

#### 5. China's Nuclear Weapons

China also has a very small nuclear force for the purpose of breaking the superpowers' nuclear monopoly and nuclear blackmail, to protect its own independence and security, and to maintain world peace. It has been built through 30 years of effort. The writer can only give some of his personal opinions on this subject.

There are similarities between China's nuclear forces and those of the United Kingdom and France. First, both are for defense and not for offense. Second, both are small in number and poor in quality, and China's are of even poorer quality, it is feared.

There are also differences between China's nuclear forces and those of the United Kingdom and France.

1. Both the United Kingdom and France are NATO members. When attacked by the Soviet Union, their nuclear forces might be figured in with America's. By contrast, China conducts an independent diplomatic line of opposition to hegemony, and no participation in any military alliance. In wartime, it can rely only on itself to fight independently.

2. China was the first nation in the world to announce that it would not be the first to use nuclear weapons, but neither the United Kingdom nor France are willing to make such a statement. They reserve the right to use nuclear weapons first should they be unable to stave off a conventional Soviet attack. China's declaration stemmed not only from its unwillingness to ignite a nuclear war, but also because China is a vast land with large numbers of troops that does not fear conventional attack that much.

3. NATO has steadily increased its forces and war preparations, and both the United Kingdom and France have gradually expanded and updated their nuclear weapons. By contrast, China has pursued a disarmament policy, cutting its troop strength by 1 million and converting its ordnance industries to civilian production. For example, nuclear industries have shifted their emphasis from nuclear weapons to peaceful uses of nuclear energy, and missile industries have also shifted emphasis from missiles to spaceflight. This does not mean that nuclear weapons are no longer made, but rather that the emphasis has changed. The small number of China's nuclear tests in recent years attests this point.

Although China's nuclear strategy may be said to be a kind of deterrence, it is targeted against deterring hegemonist coercion. It is not itself coercive; consequently it may be also said to be antidefensive.

China's nuclear strength is limited. Though it is unable to deliver to an enemy what the superpowers term an unacceptable counterstrike, it is able to create substantial damage.

From the enemy's standpoint, there is some uncertainty regarding China's limited nuclear strength in that even were the enemy to make a first strike, he could not be sure that all of China's nuclear weapons had been wiped out, and even if the enemy had an antiballistic-missile system (not yet perfected), he could not guarantee ability to intercept all incoming warheads, not to mention that the building of a comprehensive antiballistic-missile system is not in the offing in the near future. Should a single nuclear warhead slip through, this would be a disaster for the enemy. Therefore, in a situation in which the outcome of an attack is uncertain with the possibility of serious consequences, the decision to launch an attack would not be easy.

The situation of parity between the United States and the Soviet Union in nuclear strength benefits China more than the United Kingdom and France. This is because China is very large and the extent of its urbanization is also not very high. Even very great force could not bring about China's submission. The greater the spending on the forces, the greater the effect on the parity between the two superpowers; hence, the role that China's limited nuclear strength plays is more marked.

#### 6. Will There Be a Nuclear War?

By so-called nuclear war is meant a nuclear war between the United States and the Soviet Union; no question exists of a nuclear war between other countries. Nuclear deterrence has played a major role in there having been no outbreak of a major war in the 40 years since World War II, because people fear that a conventional war might trigger a nuclear war. How long can the "balance of terror" in nuclear forces between the United States and the USSR endure? It is like sitting beneath a sword

of Damocles suspended by a thread no thicker than a hair, always having one's heart in one's mouth lest the sword drop. Three possibilities for fighting a nuclear war are postulated.

1. A superpower launches a preemptive first strike, substantially wiping out the adversary's strategic weapons. In reality, this is impossible. In 1982, the President of the United States charged General Brent Scowcroft with organization of a special committee to study America's strategic weapons. The commission concluded that triad strategic forces still had survivability; consequently, they could not be completely wiped out by a Soviet first strike. By the same logic, neither could the United States launch a successful first strike against the Soviet Union. Some people said that since the USSR has more strategic weapons than the United States, once the USSR launched a first strike, should the United States make a second retaliatory strike, the Soviet Union could launch a third strike to destroy the United States; thus, the United States would not dare make a second strike, allowing the USSR to win. The possibility of such a scenario is extremely small. How could the USSR determine that the United States would not dare retaliate, and rashly launch an attack?

2. Conventional war could escalate into nuclear war, and a small-scale nuclear exchange could escalate into a major nuclear war. Let us discuss the conventional war issue first. Conventional wars among small nations, particularly in the Third World, have gone on without interruption for years, yet they have not ignited a war between the United States and the USSR. In Europe and in northeast Asia, both the USSR and the United States (and including all the countries of Europe and Japan) have massive forces in confrontation. In Western Europe, in particular, where the United States has established key defense points, NATO might use nuclear weapons first to deter the Warsaw Pact nations. Were a war to break out here, neither side would be likely to win, and both sides would sustain losses. In East Asia, both side's armed forces are not as concentrated as in Europe. The Soviet Union's logistical transportation lines are long and unreliable, not up to supporting large-scale military operations. The possibility of an American attack here is also very small, because it is a very long way from critical areas of the USSR. In other areas, the possibility of a direct clash between the United States and the USSR is also very small. For both sides, caution is the byword in order to avoid armed clashes. Should one side act tough because its important interests have been violated, the other side will give way so that the situation does not enlarge. The aforementioned Cuban crisis was a case in point. Both the United States and the USSR make every effort to keep their forces apart so as to avoid escalation into nuclear war. The possibility of a small-scale nuclear exchange is also very small, because both sides know that once the nuclear threshold is crossed, a steady escalation that cannot be repaired is very likely; therefore they do not lightly cross it. Although both sides have drawn up nuclear warfare

plans, this is nothing more than the military discharging its responsibilities. It also plays a role in increasing the credibility of deterrence. Whether a war will be fought is another matter. Recently both sides, particularly the United States, have devoted very much attention to crisis management, every effort being made to avoid crises escalating into warfare. Both sides realize they cannot go to war.

3. An unexpected event or an accidental mistake that triggers nuclear war. Formerly people worried that mistakes made by computers, or by command, control, and communications systems, radar error, human error, or actions authorized by people not empowered to act might lead to the launching of a nuclear weapon by mistake. Indeed, just such mistakes were made, but they did not create accidents. This is because weapons system control is very complex; a partial error cannot activate the entire system. As a result of fear of accidents, over the years various kinds of safety features have been designed for key systems components, and these have been steadily improved. Therefore, the erroneous launching of a missile by mistake cannot in fact happen. Furthermore, bombers that have been dispatched may be recalled, and missiles that have been fired can be commanded to self-destruct; thus the degree of safety is higher.

Clearly, these possibilities cannot become realities.

Although the United States and the USSR are constantly contending in all aspects of war preparations, and are also in a constant nuclear arms race in an effort to down the other party, they also understand that since neither side can down the other there must be limits in order to avoid a war disaster. Nowadays the word stability occurs frequently in documents, speeches, and discussions. In a large sense, this means stability in the international situation with no escalation of tensions and, best of all, a reduction. In terms of weapons control talks, although no reductions resulted from past agreements setting limits on the number of strategic attack weapons, both sides have certain expectations. They will not go off half-cocked in an arms race, creating an irretrievable situation. Current nuclear arms reduction negotiations, which call for a greater reduction in the numbers of nuclear weapons in an effort to make the situation more stable, also have a bearing on the issue of weaponry stabilization. This is because some weapons can easily lead to a greater race or make the other party feel a preemptive strike would be beneficial. For example, multiple-warhead submissile-type intercontinental ballistic missiles have been said to be destabilizing weapons. If they have 10 warheads, and target accuracy is also very high, they are naturally powerful offensive weapons. However, they can also induce the adversary to make a preemptive strike, because a single warhead can knock down 10 of the enemy's warheads. Even hiding missiles in hardened underground silos will do no good, because modern missiles are so accurate they can hit underground silos. The United States has devised a mobile

plan for its 10-warhead MX missiles, namely to construct more than 10 surface emplacements and associated roads for each MX missile, and to frequently shuttle the missiles around among the emplacements, incoming warheads thus being unable to know in which emplacements missiles are located. However, this could not be done because of the too complex systems problems, and overly high construction costs. As a result, the MX remains in underground silos. The United States is currently developing a small single-warhead "Midgetman" missile that can be moved by truck. One enemy warhead can only hit one American warhead, but it will still be difficult to take accurate aim on a target. The aforementioned Scowcroft Commission considers this a stabilizing weapon, and has developed it vigorously. The USSR is also working on similar missiles, developing them seemingly more rapidly than the United States. Antimissile weapons are also considered to be destabilizing. This is because, unless they effectively intercept warheads, they may impel the opposite party to increase offensive weapons in order to cancel out their function.

In the United States some people have proposed a "minimum deterrence" strategy theory. By this is meant that American and Soviet nuclear weapons have reached a state of "overkill," which is to say that they can annihilate each other many times over, and this is certainly not necessary. If the numbers were to be reduced, yet maintained at a level sufficient to inflict unacceptable damage on the other party (some say 200 warheads would be sufficient), and if they were well concealed, both a major reduction in nuclear weapons and continued maintenance of a nuclear deterrent would be possible. Consequently, such a plan would be a stabilizing factor. The question is whether both parties will agree to do this, and how many constitute sufficiency. In recent open discussion of sufficiency, Soviet officials have also agreed that "overkill" is no good.

The international situation is tending toward moderation and arms reduction. The United States and the USSR have signed an agreement for the destruction of intermediate range missiles, and some progress has been made in discussions for a 50-percent reduction in strategic offensive weapons, and in talks on the limitation of strategic defensive weapons. Nuclear weapons can be reduced, but until such time as there is a change in the mutual confrontation between the United States and the USSR and the struggle for hegemony, nuclear weapons cannot be completely eliminated. Thanks to nuclear deterrence, there will be no nuclear war for the foreseeable future; however, so long as warfare remains a method for resolving conflicts, and so long as nuclear weapons remain, the danger of a nuclear war cannot be completely ruled out.

Can the danger of nuclear war be eliminated? Only when countries that consider launching a war understand that war can only create losses and cannot produce benefits will they not go to war. In the past, imperialism went to war to occupy territory, to seize resources, to monopolize

markets, and to exploit slave-like labor in order to accumulate capital for itself. Under modern, industrial, and urban conditions, the occupation of territory not only confers no benefit, but may also become a burden. More and more technology and fewer and fewer raw materials are required in modern production; consequently raw material prices continue to slide on international markets, making it easy to purchase raw materials. Today capitalists can use transnational corporations to find suitable labor and profitable markets. Getting markets is largely a matter of product competitiveness, and product competitiveness depends on superb technology and effective management. Labor can no longer just be cheap; it must also possess a certain amount of education and skill, otherwise it will not be possible to produce commodities that can compete. None of these problems can be solved by occupying territory. Consequently, under these new circumstances, and when there is a high tide of anticolonialism throughout the world, old line colonialist countries have gradually gotten rid of colonies, thereby lightening their load. Naturally, for some backward countries, the seizing of territory and resources still holds certain significance; therefore limited wars continue to exist.

It is also no longer fashionable for capitalist countries to go to war with each other. Take Europe, for example. France, Germany, and Great Britain have fought heaven knows how many wars with each other in their history. Today, they coexist in the European Common Market. There is a tremendous amount of investment and economic exchange among them, and they rely on each other a great deal. Not to mention the present factors in the great enemy, the USSR, which from an economic standpoint alone could only lose and not gain should a war occurs. This is because what is in your interest is in my interest, and what is in my interest is in your interest. The same situation applies to other major capitalist nations such as Japan and the United States.

The danger of war today exists mostly between the American and Soviet superpowers. As a result of fundamental differences in ideology and systems, they completely distrust each other, and are irreconcilable. The USSR has always pulled itself up by its own bootstraps, and has been a rather reclusive country. Today it realizes that locking the door will not do. The more it has striven to excel for many years, the more it has fallen behind. It understands that it must institute political and economic reforms, that it must open to the outside world to assimilate capital and technology from abroad, and that it must participate more in international markets and carry on international exchanges, and that in order to do this, there must be a peaceful international environment. Thus, it has proposed "new thinking" diplomatically. Gorbachev has frequently spoken about world interdependence. The writer believes that the Soviet Union's attitude is sincere; otherwise, it will be unable to reform, and its national power will deteriorate relatively. If its reforms are successful, then a situation will also gradually develop between the USSR and the West of "what is

in your interest is in my interest, and what is in my interest is in your interest." When this happens, relations between the United States and the USSR will ease steadily and war will be less and less likely to occur.

In 1950, the Danish physicist Neils Bohr wrote an open letter to the United Nations in which he suggested that an open world was a prerequisite for peace. Possibly his ideal will finally be realized!

**Issues in Creating 'East Asian Economic Circle'**  
40050440 Shanghai GUOJI ZHANWANG /WORLD OUTLOOK/ in Chinese No 4, 23 Feb No 5, 8 Mar 89

[Article by Yang Jiemian 2799 3381 0517: "Issues Pertaining to Formation of 'East Asian Economic Circle'" (future installments, if any, will be published)]

[No 4, 23 Feb 89 pp 14-15]

[Text] With the economic rise of East Asia and the strengthening of the worldwide trend toward economic alliances, the question of whether China should take part in the various organizations being proposed for East Asian economic cooperation is attracting more attention every day. However, the great majority of current discussion and writing has centered on economic issues, while other issues have not received much consideration, for which reason this essay has been written. Hopefully it will elicit further discussion.

**Other Factors Involved in an "Economic Circle" Cannot be Overlooked**

Current proposals concerning economic cooperation in East Asia are diverse and complex. One opinion holds that the East Asian economic "circle" is "not manmade, but is economic cooperation that arises naturally out of the market mechanism." But since this involves economic interaction on a scale that transcends national boundaries, it must necessarily encounter problems involving politics, foreign relations, culture, ethnicity, customs, and even strategic considerations. One cannot limit oneself to economics while overlooking other factors.

First, spontaneous economic cooperation requires appropriate conditions if it is to develop fully. Since the end of the war, many economic communities have been organized one after another in various parts of the world. There had been economic interrelationships between their member nations before the economic communities were established, but most of these organizations have failed to achieve the expected success. Among the minority that has succeeded, the most notable is the EEC. The EEC has paid particular attention to noneconomic factors in the course of its development, which its founding nations have likened to a three-stage rocket. One of these stages is political integration. The EEC required reconciliation between France and Germany, and when Spain

applied for admission, they required that Spain democratize. The EEC approached the inclusion of economically less developed nations of southern Europe from the standpoint of Europe's overall unity. The EEC has taken several political measures in the last 30 years to foster, promote, and develop economic integration. For example, they have improved political consensus-building mechanisms, strengthened coordination of foreign policy, formulated relevant legislation, and quickened the pace of political integration. The first success of a relatively successful subregional organization in East Asia, the Association of Southeast Asian Nations (ASEAN), was precisely in the area of effective political cooperation, namely, their opposition to Vietnam's invasion of Kampuchea.

According to another opinion, whether a country is admitted to a proposed mechanism of cooperation is an automatic result of economic activity, and the human factor has nothing to do with that country's inclusion or rejection. This author cannot agree. The various proposals for an East Asian economic cooperative organization have been made by different countries, are concerned with different aspects, and have somewhat dissimilar motives. The western Pacific region could be covered by a range of Pacific Ocean economic communities. It could be composed of a Northeast Asian Economic Circle, a Greater Chinese Commonwealth, and a South Seas Economic Circle. This shows that this type of organization could take many different forms, and offers many choices. To continue with the example of the EEC, England was at that time infatuated with the international superpower status afforded by the British empire of earlier years, and refused to join the EEC. In the sixties and seventies, France vetoed Britain's entry several times. Neither side's refusals seemed primarily related to economic activity. Even as to economic activity, there remains the question of which type of economic system is most appropriate. This cannot but involve the question of political and social systems.

There are also some people who emphasize that regional cooperation and moves toward alliance have transcended political and ideological differences. In fact, even though there are quite close economic relations between countries with different social and economic systems, as with the socialist and capitalist nations of the East Asian region whose economic and trade relations have far surpassed interaction among the socialist nations, all relatively successful regional cooperative organizations so far have without exception been composed of nations of the same political category, such as the EEC, the CEMA, ASEAN, etc. The fact that influence of politics and ideology has been lessened and diluted does not mean that it has been eliminated. Western nations generally continue to put much emphasis on differences in social, political, and economic systems. When former U.S. Secretary of State George Schultz commented on East Asian issues, he made a distinction between the region's nations as either "free" or "communist."

### The International Political Environment for the Development of China's East Asian Relations

With respect to China's relations with East Asia, people have already done much to probe the international economic environment as it relates to China. This article intends only to make some preliminary analyses of relevant aspects of the international political environment. Through hard work China has improved the international political environment in East Asia and achieved some fundamental successes. For reasons known to all, New China remained surrounded by an unfriendly power's crescent moon for quite a long time following its founding. When Sino-U.S. relations underwent a thaw in the early seventies, relations between China and its neighbors improved noticeably. China established diplomatic relations successively with Japan, Thailand, Malaysia, and the Philippines, and entered into substantive relations with Singapore. In the late eighties, relations between China and the Soviet Union began to normalize, Sino-Vietnamese relations relaxed somewhat, the Kampuchean problem moved in the direction of political settlement, and indirect trade between China and South Korea increased greatly. With all these developments, China has created some of the political, diplomatic, and strategic preconditions necessary for economic cooperation with the nations (territories) of East Asia.

However, more political progress is necessary for China to participate in an East Asian cooperative body. First, the "four tigers" that are most representative of East Asia's economic vigor all have clear political problems or constraints in their relations with (Mainland) China. Taiwan's hostility toward the mainland has still not been resolved, during Hong Kong's transition period there exists a problem of lack of trust, and China's economic relations with South Korea are, to a significant extent, limited by political factors. China still has no diplomatic relations with Singapore. Due to political factors, (Mainland) China's trade with South Korea and Taiwan is indirect. All shipping and air traffic must pass through a third party. There are many inconveniences and uncertainties involved in the circulation of means of production and of goods and services. As long as these political problems remain unresolved, they will certainly affect the participation of China in any East Asian economic cooperative body, since such an organization without the "four tigers" is unimaginable.

Second, overall, the mistrust and suspicion of the ASEAN nations toward China has been greatly reduced in the last 10 to 20 years. However, some nations still harbor skepticism. The most notable case is Indonesia. They refuse to this day to restore diplomatic relations with China because of the so-called 1965 coup d'etat.

Third, the situations in China's neighboring Indochina and the Korean peninsula are still not stable. The situations in these two peninsulas have not only directly influenced China's relations with the nations on those

peninsulas, but have also influenced its relations with the Soviet Union, the United States, and Japan. China's considerations concerning these two peninsulas are primarily political in nature, and unless there is a breakthrough in the situations, the present state of affairs may continue for quite a long time.

Fourth, until China has been completely reunified, the Taiwan problem will surface often. The authorities in Taiwan are attempting to use their economic strength to make up for their political weakness. In recent years, Taiwan's economic relations with East Asia (particularly with Southeast Asia) have developed rapidly, and these have been followed by the so-called "substantive relations." Taiwan's relations with Japan and the Philippines are very close and cannot fail to cause people concern. Now that the authorities in Taiwan are pushing their "flexible diplomacy," they may well make even greater use of their economic strength to raise their international status. This will inevitably bring forth a series of sensitive political problems.

Fifth, since the normalization of relations between China and Japan, economic cooperation has occupied a very important place in Sino-Japanese relations, and political differences have taken a back seat to economic cooperation. Once the romantic stage of high economic expectations has passed, the question of how to advance political cooperation will become one of the major issues faced by the two nations. In East Asia, the influence of China and Japan has become relatively stronger, while the influence of the United States and the Soviet Union has become relatively weaker. China and Japan are now switching from concentration on their bilateral relations to a concern for problems in other areas (for example, the problems in the Korean peninsula and in Cambodia). In the decade of the nineties, political problems, such as how to deal with history and with Japanese military expenses, between China and Japan will continue to exist while some problems that have been placed on a back burner (such as Diaoyutai [Spratly Islands] and relations between Taiwan and Japan) might very possibly come to the fore again.

The resolution, or lack thereof, of the aforementioned political problems will to a great extent decide whether or not China is to join in any East Asian economic cooperative body, and the speed at which this occurs.

### Standards and Criteria in the Search for a Deeper Level of Cooperation

Since opening up, political and economic relations between China and the other nations (territories) in East Asia have been basically sound. However, to achieve closer economic relations, or to go so far as to participate in an East Asian economic cooperative body requires that China and the other nations (territories) make coordinated adjustments to their political, diplomatic, economic, and cultural policies in order to make them mutually cohesive. The success of the proposed East

Asian economic cooperative body requires that each of the participating countries be more adaptable, flexible, harmonious, and pragmatic. They must be willing to work for the common good. Countries (territories) with different political and economic systems not only need to coexist peacefully, but must also search earnestly for standards and criteria for a deeper level of cooperation. They must creatively carry out and develop the Five Principles of Peaceful Coexistence that were practiced by countries in Asia and Africa when they first achieved independence in the 1950's and 1960's. They must conceive political, legal, and cultural mechanisms capable of fostering regional economic cooperation. At the same time, they must also sacrifice parts of their national sovereignty in order to achieve multilateral consensus.

The two main social systems, capitalism and socialism, exist in East Asia. Although the two are converging, they are still fundamentally different. This dissimilarity continues to hinder the deepening of East Asian economic cooperation. To mention only the movement of personnel, people cannot come and go freely and without restriction among the nations (territories) of East Asia. It should be said, even as we recognize the rational aspects of the systems of other nations, that the achievements of socialist China possess a considerable degree of depth and breadth. In comparison, some nations (territories) that have adopted capitalism have not performed satisfactorily. Each nation (territory) must not only recognize the many levels at which East Asian economic development takes place and the diversity of the region's political systems, but must also recognize that the inclusion of different types of countries is a precondition for achievement of East Asian economic cooperation.

The political systems of many countries (territories) in East Asia are presently undergoing changes. Democratization and reform have become major characteristics of East Asian political development. Although democracy and democratization can be understood and interpreted in different ways, they do have certain points in common. East Asian democratization is both the necessary result of the level of the region's economic development, and the prerequisite for continued economic development in the region. If the government insists on bringing the resources of the entire society into play, then this political form would not be in sync with present realities and current trends among East Asian nations (territories). As in economics, a certain advantage accrues to countries (territories) that introduce democracy relatively late because they act last. The trend among all countries (territories) toward democratization, liberalization, and the extent of openness, will create conditions conducive to economic cooperation.

It is self-evident that China's political power and economic development contribute to peace and stability in East Asia. China is a political power in East Asia, and cannot be supplanted in its dominant position. It has

already entered its second decade of reform and liberalization, by which it will turn political clout into economic strength. From China's point of view, it is not a question of whether to participate in an East Asian cooperative body, but how to handle that participation.

[No 8, 8 Mar 89 pp 20-21]

Economic cooperation in postwar East Asia has been a long, slow process. During this period it has passed from a situation in which political confrontation produced economic antagonism, to a transcendence of political and ideological divisions in which the trend is toward economic cooperation. Currently, with the region's economic growth, the question of East Asian economic cooperation has become an item on the agenda. People are now discussing the form, structure, and mechanism for this cooperation.

#### Objective Requirements

With the primary objective of promoting economic interaction and cooperation, the fundamental force behind the proposed East Asian economic cooperative body is the region's internal economic development. For more than 20 years, East Asia's economy has grown continuously, and the momentum for growth has never flagged. Japan and the "four tigers," to consider only one example, accounted for 6 percent of the world's gross output in 1965, but by 1988 contributed approximately 15 percent. Over the same period, their share of world exports rose from 6 percent to 17 percent. Many East Asian countries (territories) have pursued an export-oriented strategy, and their economic growth has, to a large extent, been led by exports. As their economic status has risen, relations between East Asia and other nations have become closer every day. Any disturbance in the world economy is sure to have an impact on East Asia. The momentum for development is now very strong, and economically powerful East Asia has become a force in the world economy that cannot be overlooked.

Economic relations within East Asia are becoming much closer. There is now a trend for East Asian nations (territories) to move from conducting separate bilateral relations with the developed nations of Europe and America, to developing intimate relations within the region. Statistics reveal that exports by East Asian countries to other nations within the region in 1987 accounted for 31.10 percent of total exports, while imports from within the region accounted for 37.92 percent. For a long period, Japan was the region's only investor, but in recent years, South Korea and Taiwan have greatly increased their investments, especially in the ASEAN nations. They have done this in order to adjust their industrial structure, reduce trade friction, and lessen the negative impact of protectionist measures in the developed nations of Europe and America, such as restrictive trade quotas.

The division within East Asia of different levels of labor is rather pronounced. Intraregional division of labor is both necessary and feasible. Labor-intensive, technology-intensive, capital-intensive, and high-tech industrial structure and commodity exchange shift from one level to another. Competition within a single level has become one of the main factors behind the continued dynamism of the East Asian economy. Problems encountered as a result of economic development and interaction have generally transcended the scope of bilateral relations, so only multilateral consultation and cooperation can be effective. An appropriate, stable, and effective mechanism is needed if these problems are to be resolved. What is currently discussed most is the impact of the unified market in Western Europe after 1992, and the U.S.-Canadian Free Trade Agreement. To be sure, the possible impact of two such large trade alliances cannot be taken lightly, but their influence is, after all, an external one. Just what power this external influence will have as a catalyst is debatable.

The feasibility of an East Asian economic cooperative body has been greatly aided by the relaxation of tension both worldwide and within the region. During the Cold War, what appeared in East Asia was a resolve to destroy the enemy, which spawned alliances and confrontational postures. The subregional organizations that were established, such as the Southeast Asia Treaty Organization, are based on strategic, political and ideological considerations. During periods of Soviet-U.S. confrontation, hot spots appeared throughout the world, and embargoes were sometimes imposed. But in recent years, with the reconfiguration of relations between the great powers and various nations, the political conditions in the entire region have become conducive to economic cooperation, and it is only with this development that the feasibility of an East Asian economic cooperative body has been improved.

#### Each Nation's Attitude

Japan has been the most active promoter of the establishment of an East Asian economic cooperative body. As early as 1963, the Japan Economic Research and Consultative Committee produced a report called "On the Future Direction of Economic Cooperation in the Pacific." In 1965, Professor Koshimizu of Japan's Hitotsubashi University, suggested that the five developed nations of the Pacific (the United States, Japan, Canada, Australia and Singapore) establish the "Pacific Area Free Trade Area" (PAFTA). In 1967, Japan's foreign minister, Takeo Miki, spoke about his concept of "Economic Cooperation in the Pacific." In 1978, after Prime Minister Masayoshi Ohira assumed office, he proposed the "Pan-Pacific Cooperation Plan" as a key element of strategy and, together with Australian Premier Malcolm Fraser, he proposed the "Pacific Economic Cooperation Conference" (PECC). In 1983, Prime Minister Nakasone again brought forward a plan for a "Pacific Economic and Cultural Circle." After Prime Minister Takeshita took office, the Ministry of Foreign Affairs,

the Ministry of International Trade and Industry, and the Economic Planning Agency participated directly in the planning of the "East Asian Economic Circle." At the same time, many similar proposals were put forward in Japan's political, financial, and academic circles, and much research and planning work was done.

As a regional economic power, Japan's positive attitude should not be surprising. However, there are several points which must be given sufficient attention. First, establishment of an organization similar to a common market or economic circle would be done for Japan's political and economic benefit. Japan is making a great effort to use economic means to peacefully extend its economy, enlarge its market, assure its sources of supply, and increase its overall national strength. Its economic cooperation with other nations (territories) in East Asia is constrained by this factor. Second, Japan is now reducing the size of the organizations it is proposing and increasing their feasibility. At present, Japan seems to be concentrating on an "East Asian Economic Circle" which would have Japan as leader and include Asia's "four tigers" as well as the ASEAN nations. Having gone from being pan-Pacific to being East Asian, the organization has shrunk in terms of territory, but in terms of feasibility it has gained much. However, the "East Asian Economic Circle" would not include China. Third, Japan's proposal regarding an East Asian organization has already touched on concrete measures for implementation, and in nature includes policy research. Therefore, its inquiries on matters of theory and feasibility should not be limited to common markets or economic circles that have some connection with Japan.

The ASEAN nations and Asia's "four tigers" have not been enthusiastic about Japan's proposal. The attitudes of the ASEAN nations are more conflicting. While they hope to gain such tangible benefits as technology, funds, and markets through regional cooperation, they also worry that they could be controlled by a large power, and are especially apprehensive that Japan might use a common market or economic circle to increase their economic control and infiltration. The ASEAN member nations also worry that once such a regional organization for economic cooperation has been established, ASEAN will lose some of its luster and maneuvering room, and be overwhelmed by a common market or economic circle with Japan in the leadership. For this reason, leaders from some ASEAN nations have stated that "it would be better for ASEAN to strengthen itself than to join an East Asian organization for cooperation." Of Asia's "four tigers," Singapore is an ASEAN member; Hong Kong's sovereignty will return to China in 1997; and South Korea and Taiwan are in unique political and geographic positions. In economic matters, they both depend on and compete with Japan. Therefore, South Korea tends to depend on China to resist Japan's proposals in this regard, while Taiwan shows more enthusiasm toward proposals for the so-called "Chinese Economic Common Market" and the "Economic Circle of Confucian Cultural Societies." One opinion holds that

the wariness of East Asian nations (territories) toward Japan is due in large part to fear of the appearance of a second "greater East Asian co-prosperity sphere." This writer feels that historical factors are not actually the primary reason for this wariness. People frequently harken back to historical lessons because of the inducement or necessity provided by current political issues. What people are most concerned about is the direction of future development.

The success of an East Asian economic cooperative body depends to a significant extent on the attitudes of China, the United States, and the Soviet Union. In recent years, China has paid more and more attention to East Asian cooperation, and has emphasized the open, rational, and nonexclusive nature of such a cooperative body. With the passage of time and the practical necessity born of economic relations, the blueprint for a Chinese version of an East Asian economic cooperative body will gradually be delineated. The attitude of the Soviet Union is utterly different than it was in the pre-Gorbachev era. The Soviet Union hopes to take advantage of East Asia's economic vigor to benefit development of its Far East region. It is primarily a matter of Japan, China, and South Korea jointly developing and using the resources of Siberia. The United States occupies a decisive position in the East Asian economy, and the economies of several East Asian countries (territories) still depend on the United States as a motive force. However, as a world power, the United States must also regulate the relationships between regional cooperative bodies and the normal functioning of the world economic system. The United States is currently devising an East Asian cooperative body which covers a relatively large territory.

#### General Outline

Current conceptions about an East Asian economic cooperative body are complicated and diverse, and opinions differ as priorities diverge. Apart from the "Pacific Common Market" and the "East Asian Economic Circle" already referred to above, other relatively important ones include the "Japan Sea Economic Cooperative" (Japan, China, and North and South Korea), the "Yellow Sea Economic Circle" (the western coast of South Korea and China's Liaodong and Shandong Peninsulas), the "Northeast Asia Economic Circle" (Japan, North and South Korea, the Soviet Union's eastern coastal region, and Chinese coastal cities north of Jiangsu Province), and the "Greater Chinese Economic Circle" (Mainland China, Hong Kong, Macao, and Taiwan).

When people discuss the East Asian economic cooperative body, they have generally taken the EEC as their model. In fact, the actual conditions in East Asia are very different from those in Western Europe in terms of the level of economic development, historical and cultural background, social and political systems, religious faith, and ethnic relations. The pattern for economic cooperation between nations that have only begun to develop relatively recently cannot, in fact, be indiscriminately borrowed and copied from that of the developed countries of Western

Europe. Although it is difficult at present to give a concrete description of the future path of an East Asian cooperative, its general outline is now gradually coming to light.

The proposed cooperative body will be rather loose-knit. It will not be like the supranational EEC, with its large bureaucratic structure, increasingly stringent rules and regulations, and its frequent administrative, financial, and legal operations. Neither will it be like the coordination offices between the governments of developed nations, such as the Organization for Economic Cooperation and Development, whose headquarters are in Paris. It may very well be that coordinative and cooperative activities will gradually progress from few to many, from the easy to the difficult, and from the subregional to the regional. As it gradually evolves, this body should, as much as possible, resolve practical problems and avoid putting too much emphasis on idle talk in order to attract members and preserve the momentum and impetus of development.

The proposed cooperative body should be all-inclusive in order to adapt to the region's diversity. In the beginning, the Pacific Common Market did not include countries with nonmarket economies, but this type of concept has become less and less suitable to the realities of East Asia. China and the Soviet Union are socialist countries in the midst of reform and opening up, and their relations with the community of East Asian nations with market economies are gradually beginning to dovetail. There will be more development in the 1990's, and furthermore, if this organization worked for cooperation within the entire region while excluding China and the Soviet Union, it would leave Japan in a dominant position. In the long term, this would not be beneficial to the region's political stability and economic development.

The passage of the proposed organization from preliminary discussions to maturity will be a long historical process. Twenty "springs and autumns" have passed since people first raised the idea of a Pacific cooperative in the early 1960's, and the birth and maturation of such an organization will take even longer. At the same time, people should not weaken, but should bring into full play the function of currently existing organizations, such as the United Nations Economic and Social Commission for Asia and the Pacific, the Asian Development Bank, ASEAN, the Commission of Economic Cooperation for the Pacific, and other specialized organizations, and make them strengthen East Asian economic cooperation. However, as an important nation in East Asia, China should begin as early as possible to plan and prepare for, and actively participate in, related activities in order to make a contribution to the early establishment of an East Asian economic cooperative body.

In short, there is no ready-made sample from which an East Asian economic cooperative body can be copied. We must be original, search creatively, and base development on concrete realities.

**Assessment of Political Reform Schools of Thought**  
*40030281h Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 227, Feb 89 pp 22-23*

[Article by Qiu Chuiliang (6726 0987 0081)]

[Text] Idealists advocate Western freedom, democracy; uphold separation of political reform from realism of economic determinism. Work actualists admit the confines of one-party autocracy. Culturalists place hopes on cultural enlightenment. New authoritarianists prefer economic development under political autocracy.

During my three-week study tour of the mainland at the end of 1988, my main concern and topic for research was naturally what course the reform of the political system in China would follow.

In serious talks with those on the mainland concerned with the fate of developments in political reform, the impression and answers I received are that all unanimously agree that China has no choice but to promote reform of the political system. Without reform of the political system, it is impossible to reform the economic system. Moreover, a majority agreed that China's political reform is presently facing a rough road, running into a brick wall on all sides, seemingly with no way out. Nevertheless, although some among them despair, believing that political reform is dead, others hold that it still has not died a natural death and that it may return to life, and even see the day when giant strides will be made. I was most interested and enthusiastic to see that these scholars are still working at their research with perseverance, publishing and publicizing their different opinions and contentions about political reform. Although nobody is raising his arms and shouting, still, ideological speech is rather free. It is more or less the case that 100 flowers are blooming and 100 schools of thought are contending.

#### Idealists and Conservatives

The scholars of reform can more or less be divided into five groups. Their factional lines and main viewpoints are as follows:

(1) The idealist reform clique might also be called the Western free democracy faction. Its main figures are, on the mainland, Fang Lizhi [2455 0536 0037], and abroad, ZHONGGUO ZHI CHUN [CHINA SPRING's] Hu Ping [5170 1627], and also the millions of young students who worship and believe in Fang Lizhi. They feel that democracy is democracy. To realize democracy means using democratic methods. There are no restrictions of Chinese culture or of China's special characteristics. What they advocate is democratization through Western freedoms. What China needs is mainly the democratic politics of Britain, the United States, and other advanced Western nations.

Scholars on the mainland largely believe that this clique is not sufficiently realistic because they have not taken into account the current actual conditions in China of poverty and backwardness, widespread illiteracy and ignorance of the law, and low political awareness—so how can they suggest that such people could choose worthy and able democratic politics? These scholars say it is impossible for China to practice Western democratic politics because, when electing congressional representatives, the majority of rural and urban elections are a "joke." The voters have no idea who the candidates are. Voters cast votes according to the directives of party leaders.

Nevertheless, as I pointed out, if successful Western democratic politics are being practiced in India, which is poorer and has more illiterates, and likewise, during the last two years, in the Philippines and Pakistan, both of which suffer more unrest and are less stable than China, why not China? They did not know how to answer.

The scholars who pointed out cultural determinism said that a traditional feudal, patriarchal, authoritarian political culture still heavily and pervasively exists on mainland China; thus, it is fundamentally impossible for Western democratic politics to thrive in China. In this regard, I pointed out the success in the development of democratic politics on Taiwan, making them feel that the theory of cultural determinism is rather flawed.

(2) Another group is the conservative reformists. They are realists of economic determinism. In the main, they are economists who participated in theoretical work for Zhao Ziyang's economic reform, members of the economic reform committee, or somehow related to the economic reform institute. Representative figures include Yu Guangyuan [0060 0342 6678], Bi Muqiao [5643 2530 2890], and Dong Fureng [5516 6634 4356].

They made considerable contributions to the reform of China's economic system, to the contracted management responsibility system, the commodity economy, or market economics. However, their hands were tied this year regarding economic troubles when prices rose and there was inflation. They were unable to boldly promote further reform of the ownership system.

With reference to political reform, they tend to be conservative. They are basically unwilling, or perhaps, unable, to participate. Therefore, they keep a distance from political reform, aiming for stability.

#### Work Actualists and Enlightenmentists

(3) Between the two aforementioned groups, the work actualist reform clique might also be called the determined realists of the political system. The main scholars include Yan Jiagi [0917 1367 0366], Yu Haocheng [0060 3185 2052], Su Shaoshi [5685 4801 2335], and Li Yinning [2989 0110 1337]. Although they all understand

and advocate true democratic politics, yet they acknowledge going so far as to limit themselves to the political reality of CPC one-party autocracy. Thus, they can only seek political reform under the political mode of the "four big upholds," seeking democracy within the party as the most important thing for political reform, as though returning to life from death.

They were taken seriously for a time by Hu Yaohang and Zhao Ziyang, although now they are all flitting outside of the CPC power circle. Some say they no longer have much influence upon political reform. It is said that when Yan Jiaqi discussed the feasibility of a republic system in Hong Kong last month, Deng Xiaoping gave him a good scolding, calling him even worse than Liu Binyuang [0491 6333 7139].

Speaking truthfully, they do not have much force now. Although I very much admire their knowledge and persistence, yet, based on my democratic reasoning analysis and critique, I feel that the work actualists are moving toward what is bound to be a dead end.

(4) In addition to the three major factions listed above, there is also the reform clique of the cultural enlightenmentists, perhaps the unwitting product of circumstances. They are also idealists. Most of them advocate wholesale acceptance of Western cultural freedom, human rights, science, and democracy. A minority has a slight longing for new Confucianism. I do not know and have not studied much about them. One young friend told me that the leading scholars of this group are the authors of *He Shang* [River Elegy], Su Xiaokang [3683 2556 1660] and Wang Luxiang [3769 7627 3276]. Their leader should be Bao Zunxin [0345 6690 0207]. Qian Yang's [3927 7122] status in the clique is uncertain.

When I asked about Jin Guantao [6855 6034 3447], the answer was that his role in reform is unclear. He is too close to the center of CPC power, making his reform attributes suspect.

Most of these scholars are young. They are relatively pessimistic about the present reform, believing that there is hope for China only after a long period of cultural enlightenment work. Their social and cultural activities are very powerful, but it is doubtful whether they can lead to democratic political activities.

#### New Authoritarians

(5) The fifth faction might be called the new authoritarians. Yan Jiaqi and Yuan Zhiming [6678 1807 2494] of *He Shang* both mentioned to me these politically alienated youth. Unlike the other four factions, members of which I personally contacted and met, the only person of

this group I have had contact with is Zhang Binglu [1728 3521 0046] of Beijing University. The only other two I have heard of are Xiao Gongqin [3618 0361 0330] and Wang Juntao [3769 6311 3447].

Nonetheless, their thinking is pretty widespread in the universities. I have heard a lot of noise from this faction. They support renewed political authority for the CPC, and new authoritarian politics under the leadership of a charming and powerful leader, as necessary. They seek modernization of a rich and strong China under the stability of a new authoritarian political system.

What I do not understand even now is how they can rely on the development of Samuel Huntington and the development experience of Asia's four little tigers. They see Huntington's social stability without recognizing the theoretical point of his democratic political base. They feel that the economic miracles of the little tigers are the products of their political dictatorships (Hong Kong certainly is different). They neglect the even more important economic development factors of capitalism, individualism, general education, Western science and technology, American markets, etc.

This authoritarian reform development theory, along with authoritarian political reform, undoubtedly has relatively serious problems and shortcomings. Living examples of the serious faults with such a theory include Lee Kwan Yew of South Korea (as published), Marcos of the Philippines, and Zia ul-Haq of Pakistan. Simply stated, the theory has too many frightening fascist elements. It is truly unwanted.

#### Divided Reformists

Of course, this is a rather rough division. China's reform picture is more chaotic and confused than this. However, at a certain level, the fact that these five factions separately exist, and even go so far as to be nonconversant and mutually misunderstood, is a big problem and difficulty for the promotion of democratic political reform in China.

What bright future can there be for democratic politics in China and political reform of the CPC if these groups, which more or less have an awareness of democratic politics and which are all conscious of democratic political reform, cannot find the theory and action for democratic political reform or even set the stage for finding common knowledge and cooperation on the ideals of a procedural basis for democracy?

## NATIONAL AFFAIRS, POLICY

**Analysis of Reform, Structural Problems of State Enterprises**  
*40060407 Beijing JINGJI LILUN YU JINGJI GUANLI [ECONOMIC THEORY AND BUSINESS MANAGEMENT] in Chinese No 1, 28 Jan 89 pp 38-43*

[Article by the State Ownership Research Group of the Chinese Academy of Social Sciences Economics Institute: "Difficulties Encountered by State Enterprises in the Course of Changes—Investigation Report on Large and Medium-Sized State Enterprises in Baoding City, Hebei Province"]

[Text] The following investigative report on the Baoding City Transformer Plant and the Baoding Lianhe Chemical Fiber Plant, both in Hebei Province, gives a factual description and analysis of the major changes that have taken place in the past few years in the state enterprise system, the problems that have surfaced in the course of the changes, and the difficulties lying ahead.

Taking part in the investigation were Tang Zongkun (0781 1350 3540), Xin Wen (1823 2429), Yang Yunlong (2799 0061 7893), Liu Xianxuan (0491 1420 3763), Chen Yimin (7115 0001 3046), Shi Changkui (2457 2490 1145), and Jia Li (6328 0448). This report is written by Xin Wen and Yang Yunlong.

### I. Weak Control by Owners and Assured Income for the Authorities

The Baoding City Transformer Plant was established in 1958. Now it has 55 million yuan in fixed assets and employs 3,400 workers and staff members. In 1987, it realized a profit of 20.27 million yuan from an output value of 103.2 million yuan. Of China's three large transformer plants, the Baoding plant ranks second in output. The Baoding Chemical Fiber Plant, one of China's major chemical fiber producers, was built in 1957 with an investment of 150 million yuan. The plant was designed to produce 10,000 tons of viscose filament. Its major product, each year. Actual production in 1987 was 9,757 tons, about 40 percent of China's total output of viscose filament. In May 1987, a new polyester branch was completed by the plant, with an annual production capacity of 2,000 tons of polyester filament.

Question No 18 in our "Investigation questionnaire for factory directors (managers) of state-owned industrial enterprises" was: If your enterprise's production exceeds demand, what will be your major short-term reaction? If your enterprise does not want to reduce output, what is the major reason? Although production of these two enterprises will not exceed demand in the next few years, their market forecast is not optimistic, particularly the Baoding Transformer Plant, which believes that the transformer market will be saturated by 1990. Yet the choice by both managers was to continue promoting sales, instead of reducing output. Their main argument

was with reduced production, they would not be able to fulfill the targets set by state production plans, without enough work, it would be difficult to control the workers and staff members, and the reputation of the enterprises would suffer; and with reduced production, the workers and staff members would take a loss in income, which would be bad for their morale.

Obviously the major factor which influenced the managers' choice was not the rate of return on assets, which means the owners' interests carried little weight in their decisions. Things that weigh most heavily on enterprise managers are 1) targets set by higher administrative authorities and, 2) assurance that bonuses for workers and staff members will not drop below a specific level. Since these facts dictated what was in the managers' own best interest, how could they detach themselves selflessly from reality and adhere to long-term management goals? Especially because the total wages of an enterprise are linked to the amount of profits and taxes it turns over to the state, whether its sales can be maintained at a certain level is of utmost importance. How much profit can be realized from sales has nothing to do with wage increases. The link itself encourages enterprise management to operate on a short-term basis. Because as long as taxes are increased, wages can be increased correspondingly, and tax increases (referring mainly to product tax) are not always based on improved economic performance.

Both the Baoding Chemical Fiber Plant and Baoding Transformer Plant are more than 30 years old. Their production equipment is quite obsolete. To question No 22 of the investigation questionnaire, about the ages of their major equipment, the managers of both enterprises chose the period "1950-1960." At a discussion meeting with the plants' cadres, they agreed that it is cheaper and more efficient to expand an old plant than build a new one, to replace fixed assets than expand an old plant. However, to replace equipment, it is necessary to stop production (or partially stop production), which will result in reduced total output, unfulfilled targets, reduced profit retention by the enterprise, and reduced income for workers and staff members. For this reason, state enterprises always prefer to build new plants rather than replace obsolete equipment. This widespread phenomenon is certainly not caused by just the low depreciation rate set by the state. The major cause is probably the weakness of the owners' control over the enterprises.

As to who the owners are, enterprises owned by the whole people are actually owned by the state. Ownership by everybody is equal to ownership by nobody, and, therefore, the only alternative is for the state to exercise the right of ownership on behalf of all the people. However, whether those cadres that actually exercise state power in various capacities and at various levels can really work for the interests and wishes of all the owners is a question that so far has no satisfactory answer. So far, no standards have been established to

monitor the way these cadres exercise the right of ownership, the results they produce, and their personal gain or loss in the process. Thus, the inherent weakness of owner control over state enterprises is first of all reflected in the lack of clearly defined economic and legal status of the owners.

It is on this basis that China's state enterprise system is established. The right of owners is attached and subordinate to administrative authority. The economic system is based on the administrative system, which is rigidly stratified and separated between departments and regions, and looks like an administrative system itself. As a result, enterprises become appendages to government organizations at various levels, performing specific administrative functions at specific administrative levels. Thus, the regulating and controlling government agencies and the regulated and controlled are merged into one body, in which administrative instructions come from top to bottom. At the same time, the entire economic system is in effect divided up among departments and regions. There are no real economic relations between enterprises.

Because of this, our policy should first of all be focused on loosening government control over the enterprises, separating the roles and functions of the regulating and controlling agencies from those of the regulated and controlled. On the one hand, the enterprises, as the principal players in economic activities, should be separated from the administrative departments and local governments to which they now belong, in order to establish a new setup in which government departments will function only as the regulating and controlling agencies with no direct involvement in matters of production, and the enterprises will engage only in economic activities, regulated and controlled by the former. On the other hand, the administrative rank and functions of the enterprises as a part of the government should be given back to relevant government agencies.

In this logical reform process, we are faced with some basic questions: What is the basis for the state to exercise its macroeconomic regulating and controlling functions—by demand of property owners, or simply because it is the state's own historical role? When enterprises, as principal players in economic activities, became commodity-dealing economic entities in the true sense of the term, how should their property rights be defined, or, at least, who are the owners of their properties? The different thoughts about how to deal with these questions will naturally determine the basic pattern of the restructured macroeconomic and microeconomic systems.

The reforms of the past few years have dealt with these questions by getting around them. The results are: Microeconomically, a part of enterprise profits goes to the government as the price for loosening government control over enterprises, which is also known as using money to buy reform. Macroeconomically, the way the reforms skirted the ownership question has turned

administrative authority into direct income for those in power. And now, because power has a monetary value, it has become a most widely honored kind of universal currency. The monetization of power is inherently characteristic of the attachment and subordination of ownership rights to administrative authority.

The "reform" of weak owner control into firm income for those in power is manifest first of all in administrative organizations at various levels, particularly the administrative corporations that directly collect all kinds of administrative fees, service charges, apportionments, and donations from enterprises. In paying taxes and turning over profits to the state or paying interest on bank loans, an enterprise can negotiate for better terms, but in paying the numerous fees to the administrative authorities, it has no choice but to make payments in full and on time. It is significant that during our discussions with the financial departments of enterprises, while complaining about payments to those in power, they also asked for reform of the financial system to reduce the financial inspections; let the enterprises determine how much to pay the authorities, and thus reduce the risks the financial personnel must take of violating financial discipline by including such payments in costs. The crux of the problem is that inclusion in costs of payments to the authorities reduces not only the profits retained by the enterprises, but also the taxes and profits turned over to the state and, thus, payments to the authorities should be borne jointly by the state and the enterprises. The weakness of owner control is further demonstrated. In addition to the direct administrative fees, service charges, apportionments, and donations, there are also some unique forms of payment to the authorities by the enterprises covered in our survey. First, demands for goods in short supply are made at every level of administrative authority in order to make a huge profit. Second, departments controlling raw and semifinished materials in state plans have invented all kinds of clever ways to exact payments for their power. The quotas set by state plans for raw and semifinished materials allocated to enterprises are falling further and further below actual needs. However, even when enterprises have obtained quotas, they still cannot get all the raw and semifinished materials at prices set by the plans. Third, even without direct relations with the economic activities of enterprises, powerful departments still can demand payments from the enterprises.

One of the problems that have long troubled state enterprises is that, while more powers are delegated to them by the central government, powers are taken away from them by the local governments. Generally, the state will take back some of the powers delegated to the enterprises only when facing financial difficulties. The local governments, however, will take away the enterprises' decisionmaking power not because of financial necessity but simply to boost their own income, so long as the enterprises remain subordinate to them. It should be pointed out that compared with the central government, the local governments not only make sure that

they take a share of the enterprises' income from production, but are more concerned about the enterprises' economic associations to prevent profits from flowing elsewhere.

## II. Realities Put the Status of the Abstract Masters in Doubt

In the questionnaire for factory directors (managers) of state-owned industrial enterprises, the directors of the two Baoding enterprises answered the following questions: Did you become factory director of your enterprise through appointment by higher authorities, election by the congress of workers and staff members, competitive bidding, or recommendation by the contracting collective? Both chose the answer of appointment by higher authorities. Does your enterprise have the right to recruit workers and staff members? The answers were negative. If not, where do workers and staff members of your enterprise come from? Mandatory assignments by higher authorities? Assignments by higher authorities with the enterprise's agreement? Or recruitment by a higher department based on plans submitted by the enterprise? They both chose mandatory assignments by higher authorities. Who appoints and removes the middle-level cadres in your enterprise? Among five answers—Independent decision of the factory director, nomination by the factory director and approval by higher authorities, election by workers and staff members, open bidding in the factory, and appointment and removal by higher authorities—Independent decision of the factory director was chosen by both. What decisions are made with the participation of workers and staff members in your enterprise? Among 10 answers—election or dismissal of enterprise leaders, recruitment of new workers, laying off (or dismissal for cause) workers, decisions on wages and bonuses, workers' job assignments within the factory, decisions on development of new products, decisions on new investment, use of profit retained by the enterprise, drawing up the enterprise's production and financial plans, and housing distribution—two were chosen: decisions on wages and bonuses, and housing distribution. Which of the following two choices do you think is more effective in stimulating the enthusiasm of workers and staff members? Both chose "give workers and staff members material encouragement," instead of "allowing them to participate in decisionmaking."

In our survey of several enterprises in Baoding City, we discovered that the old cadre and labor systems make it impossible for workers and staff members to independently choose enterprise leaders and their own jobs, so the workers and staff members can only complain to their leaders within the enterprises, while expanding the enterprises' decisionmaking power and stressing the difference profits make to enterprises, because both the efficiency in the disposition of assets and the differences in the managers' abilities directly affect the workers' income. The most common complaint is about income. In fact, this condition is by no means limited to the large and medium-sized enterprises in Baoding City. Under

the existing system, the enterprises themselves have no right to control their own assets, and naturally the workers have no such right (also known as proprietary right) either. Since ownership by the whole people can only take the form of state ownership, the actual ownership of the means of production of the whole people can only be exercised by the cadres at all levels of the state. If workers as individuals do not own the means of production (because they are jointly owned), then do the workers of an entire enterprise as a group own the means of production? The answer, of course, is also no, because that is ownership by the enterprise. As the workers hand over their ownership and control of the means of production to state cadres at various levels, do they themselves simply become owners of labor power? Judging by the existing theory, they are not that either. Because as laborers, the workers are still masters of the state, and naturally also masters of the means of production. Although much depends on the workers' conscious action to give expression to this role as masters, and although the abstract master's status and the actual laborer's role are too far apart economically to be considered one and the same, the existing theory still regards enterprise workers as the masters.

As shown by our investigation, the workers not only do not own or control enterprise property, but "play almost no part" in their enterprises' operations and decisions. The workers do not even know how their enterprises are managed, just as they do not know how the economy of the entire country is managed. For example, the transformer plant and the chemical fiber plant have, since 1985, linked their total payrolls to the profits and taxes they turn over to the state: for every 1-percent increase in profits and taxes turned over to the state, their total payrolls will be increased by 0.8 percent. In 1986 and 1987, neither enterprise paid workers the full amount of wages they should have received based on the amount of profits and taxes turned over to the state. Each enterprise put aside more than 2 million yuan, which would be used to keep wages increasing when there was a drop in profits and taxes turned over to the state. It is pointless to comment whether the decision to do so was right or wrong. The point is that the matter was known only to a few major enterprise leaders and the sections and offices involved. When we asked the enterprise leaders how well workers and staff members were informed of their enterprises' operations and management, almost all gave the same answer, that a summary report was given by the factory director to workers and staff members at the end of each year, giving a few major figures about fulfillment of plans and targets, economic returns, etc., just like the government work reports made by national leaders to the whole country.

Enterprise workers cannot appoint or remove the state cadres at various levels who exercise proprietary rights on means of production in their behalf, nor can they appoint or remove the leaders of their own enterprise. However, under the rigid employment system and the system of allowing children to inherit their parents' jobs,

an enterprise culture characterized by obvious family and geographic ties has developed. Unquestionably, this enterprise culture has become a major obstacle to development of an entrepreneur stratum. Even in open bidding for management contracts, this enterprise culture also poses a real threat to outside bidders. Naturally, if the outside bidder is designated by a higher administrative department or has a strong political background, overt or covert, then it is a different story. At a discussion meeting with cadres of the Baoding Transformer Plant, we learned that a factory which used to supply raw and semifinished materials to the transformer plant stopped production, when an outsider became its manager through public bidding and was boycotted by the workers and staff members. As a result, the Baoding Transformer Plant was also cut off from supplies of raw and semifinished materials.

According to the theoretical explanation under the present system, socialist public ownership does not give anybody the right to be paid for owning any means of production. This kind of public ownership only means that all members of society are given equal rights to use the means of production to work, and every member of society, after obtaining this right, need not worry about job and security for the rest of his life and can even pass on the benefits to his children and grandchildren (by succession). In real life, this is known as the "iron rice bowl." Historically, it is probably this iron rice bowl system that has given some practical meaning to the workers' abstract status as masters and has prevented generation of a sense of loss and disillusionment because their ownership of means of production is being exercised by state cadres at various levels.

Whether this kind of employment system embodies a progressiveness that is superior to the capitalist employment system is beside the point here, but that it has caused the existence of large numbers of redundant personnel in state-owned enterprises is a fact. In the two enterprises we surveyed, the proportion of firstline production personnel to the total number of workers and staff members ranged between a low of 38.96 percent and a high of 67.62 percent, and non-direct-production personnel always accounted for more than a third of the total. None of these two enterprises are technology (knowledge) intensive. The Baoding Chemical Fiber Plant is a labor-intensive enterprise, and the Baoding Transformer Plant is an intermediate labor-intensive enterprise.

It is exactly this employment system, which is tied to the abstract master's status, that has given enterprise workers a monopoly on jobs beyond economic considerations. As payments to the authorities are expected to increase in the course of reform, so is the income of enterprise workers with their monopoly on jobs. This is the force that keeps enterprise bonuses going up and prevents them from coming down.

Judging by the logic of reform, unless the iron rice bowl employment system is broken, it is impossible for the market of production factors to develop, but once the iron rice bowl is broken, the master's status of enterprise workers will lose its last thread of practical meaning. Who, then, are the owners of state assets after all? How is this ownership to be exercised? Through what kind of system or in what way should the master's status of enterprise workers be given expression? How can their roles as owners and as laborers be united in a practical way without hindering the process of the structural reform? In a word, the abstract master's status of enterprise workers can no longer be maintained. This question is bound to become one of the basic issues in the reform of state enterprises.

### III. Pursuit of Higher Administrative Standing and Equalization of Benefits

Because the traditional economic system is based on administrative orders, one of the natural tasks in reforming state enterprises is to rid the enterprises of their administrative standing and functions. However, after 10 years of reform, today, state enterprises ask for greater independence and more profit retention, but still doggedly seek to elevate their administrative standing. Because payments to the authorities are firmly on the rise, the tendencies of the enterprises are understandable. The lower an enterprise's administrative level, the more levels and kinds of departments there are to demand payments from it. Therefore, the administrative standing of state enterprises has unquestionably become an X-factor in their economy. The absolute value of this X-factor is in direct proportion to their administrative level.

Although the reform has encountered many difficulties in the past 10 years, the good news is that the mechanism of market competition is forcefully penetrating into state enterprises. However, regulation of the enterprises' economic activities by the administrative order system remains a parameter that must not be underestimated. So, the enterprises' administrative levels still have a direct bearing on the rights and interests they can win from policy competition under the administrative order system.

The Baoding Transformer Plant, Shenyang Transformer Plant, and Xian Transformer Plant are China's three big producers of large and medium-sized power transformers. However, the Shenyang and Xian plants are ministry- or province-run enterprises and even enjoy the status of being included separately in state plans. As such, they can cut a slice directly from the pies of state or provincial plans in investment funds (or loans), raw and semifinished materials, energy quotas, and foreign exchange quotas. In contrast, the Baoding Transformer Plant is a city-run enterprise (even though it ranks second in output among the three). For the same items, a slice is cut from the state pie for Hebei Province; the province then cuts a slice from its share of the pie for Baoding

City; and finally the city cuts a piece from its share for the plant. As the pie gets smaller and smaller down the line, the slices given enterprises at different administrative levels are vastly different in size. Although some quotas are earmarked for the Baoding Transformer Plant directly from the state, after being siphoned and sponged again and again at each level, little is left when they finally reached the plant.

The Baoding Chemical Fiber Plant was under the Hebei provincial administration in 1984. In 1985, it was put under the local administration of Baoding. The direct result of the plant's demotion from a province-run to a city-run enterprise is a reduction of its profit retention by about 3 million yuan. The 1984 base figure of tax and profit delivery by the plant was 18.7 million yuan, including 3 million yuan in regulatory tax that was transferred by the province to Baoding City. This base figure remained in effect after the plant's transfer. Beginning in 1985, the state adopted a preferential policy for the textile industry, reducing or exempting its regulatory tax. According to this preferential policy, the Baoding Chemical Fiber Plant should be exempt from paying the 3 million yuan regulatory tax each year. However, a most practical problem arises here, and that is "the central government gives a party, but the local government pays the bill." Because when the central government announced the exemption from the regulatory tax, it insisted that the local governments continue to deliver taxes and profits to the state according to the same past base figures. By fulfilling the base figure of tax and profit delivery, Baoding City may retain 17 percent. But to pay 3 million yuan each year for the central government's generosity would undoubtedly cause financial difficulty to the city. Practical interest forces the Baoding government to make up for the loss by taking 3 million yuan from the chemical fiber plant's profit retention. It is no

longer called a "regulatory tax." When the local government's orders run counter to the central government's guidelines, the enterprise can take the opportunity to strike a bargain with it. Although not a cent can be reduced from the 3 million yuan for the local government, the enterprise can demand more consumption funds for its workers and staff members. Of course, both have to come from the profit retained by the enterprise, which means the development of the enterprise itself has to take a back seat.

As mentioned before, the Baoding Chemical Fiber Plant can sell only 2 percent of its products on its own, which is unusual among today's state enterprises. There are, of course, many reasons, but one major reason is that the enterprise is at a low administrative level and has to satisfy demands from many higher authorities. If it were a ministry-run enterprise, it would only need to meet an 8,000-ton target set by the Ministry of Textile Industry, leaving more than 1,700 tons of goods for sales through its own channels, and the rate of goods marketed by the enterprise itself would be more than 17.3 percent, instead of 2 percent. If this could happen, the difference between the market price and the planned price of the products marketed by the enterprise itself would amount to 20 million yuan, more than double the profit it is allowed to retain and greater than the total amount of taxes and profits (not including the product tax) it is required to deliver to the state.

While seeking elevation to a higher administrative level and retention of a larger portion of their profits, the enterprises also have to constantly revise their own equalized internal pay structures. The reforms have not yet produced an adequate economic mechanism to bring more noticeable changes to their pay structures.

Table 1: Monthly Income Distribution for Grade 4 Workers of Two Enterprises in Baoding City (Unit: Person)

|                                 |      | Under 70<br>Yuan | 70-80<br>Yuan | 80-90<br>Yuan | 90-100<br>Yuan | 100-110<br>Yuan | 110-120<br>Yuan | 120-130<br>Yuan |
|---------------------------------|------|------------------|---------------|---------------|----------------|-----------------|-----------------|-----------------|
| Baoding Chemical<br>Fiber Plant | 1984 | 641              |               |               |                |                 |                 |                 |
|                                 | 1987 |                  |               |               | 718            | 1,006           |                 |                 |
| Baoding Transformer<br>Plant    | 1984 | 35               | 89            | 242           | 123            |                 |                 |                 |
|                                 | 1987 |                  |               | 52            | 106            | 216             | 218             | 34              |

Table 2: Per Capita Annual Wages for Workers and Staff Members of Two Enterprises in Baoding City (Unit: Yuan)

|   |                              | 1980 | 1983 | 1984 | 1985 | 1986 | 1987 |
|---|------------------------------|------|------|------|------|------|------|
| Wage level for technical personnel            | Baoding Chemical Fiber Plant | 675  | 652  | 716  | 795  | 946  | 1182 |
| Wage level for managerial personnel           | Baoding Transformer Plant    | 589  | 588  | 718  | 750  | 895  | 946  |
| Wage level for firstline production personnel | Baoding Chemical Fiber Plant | 686  | 628  | 716  | 795  | 947  | 1182 |
| Wage level for service & other personnel      | Baoding Transformer Plant    | 587  | 587  | 717  | 749  | 894  | 960  |
|   | Baoding Chemical Fiber Plant | 596  | 584  | 684  | 760  | 905  | 1027 |
|   | Baoding Transformer Plant    | 586  | 589  | 716  | 750  | 894  | 947  |
|   | Baoding Chemical Fiber Plant | 596  | 546  | 623  | 691  | 823  | 1028 |
|   | Baoding Transformer Plant    | 586  | 584  | 716  | 751  | 893  | 940  |

As the statistics show, there are still disparities in wages for workers at the same grade, and the gap is about 40 yuan per month between the lowest and highest paid (about 500 yuan per annum). But it is surprising that, as shown in table 2, annual wages are becoming increasingly equalized between technical and managerial personnel and between firstline production personnel and service and other personnel.

There is a strong equalizing tendency not only in wages but also in the distribution of bonuses. In the survey, we learned that in 1987 the Baoding Transformer Plant did rather well in meeting the targets set for its contracted managerial responsibility system and was one of Baoding City's top enterprises in delivering profits and taxes to the state, for which the city awarded the plant director a bonus of more than 2,000 yuan (the mayor gave the award, but the money was from the enterprise's own retained profit). In our meeting with the plant's trade union, we learned that the workers strongly objected to the award, maintaining that the money should be divided evenly among all workers. They felt that even if each worker could receive only a few cents, enough to buy a piece of candy, it would make them feel good. They mentioned with envy a nearby enterprise, where the director received a similar bonus and distributed it evenly among the workers, each worker receiving 0.27 yuan.

To sum up, both the pursuit by enterprises of elevation to a higher administrative level and the pursuit by workers of equalization of benefits have put serious questions before us: How should the economic status of state-owned enterprises be established? How should the internal structures of enterprises (including pay and organizational structures or the structure of roles of owners, managers, and laborers) be molded? The present situation shows clearly that if we try to bypass these questions, it is impossible to make real progress in the reform of state-owned enterprises.

#### **Importance of Boosting Research, Development Groups**

HK1104045089 Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 2 1989 pp 5-9

[Article by Wang He (3769 3109), edited by responsible editor Shen Zhiyu (3088 1807 3342); "Policy for the Expansion of Research and Development Groups in China"]

[Text] Amid contemporary market competition, which is keen both in China and throughout the world, the move to boost research and development capabilities has become a key and decisive factor for an enterprise, region, and country to win the competition. To a large extent, the move to boost such research and development capability is determined by the form of combination among scientific and production enterprises, as well as the advantages of the research and development community. To boost the competitive capability of its

industrial enterprises in both the domestic and international markets, and to enliven China's economy, it is highly significant for China to expend great effort on expansion of research and development groups and on turning individual advantages into general ones.

#### **I. Types of Research and Development Groups in China**

A research and development group is a combination of academic research institutes and production enterprises, acting as the focal point and taking the transfer of research achievements as its link to satisfy the needs of socioeconomic development. It pools the comprehensive research strength of qualified personnel, knowledge, technology, equipment, and information, in respect of which each party contributes its investment in cash or by payment in kind, such as equipment, technology, patent and trademark, and enjoys rights and bears responsibilities in proportion to its contribution or in accordance with provisions provided in relevant regulations. It therefore makes integral arrangements for the group's assets and operation, and becomes a combined entity monopolizing the economic aspect of science and technology and hence gains the status of a legal entity.

There are several types of research and development groups in China. Generally speaking, they can be classified in different ways as follows:

The first is to classify groups by purpose and composition. There are three basic types:

1. Specialized research and development groups. They are formed on the basis of key research projects and in accordance with state, province, and city plans for general scientific and technological research and development groups. Such a group includes computer technology, new materials science, biological engineering, space technology and, so forth.

2. Regional research and development groups. They are transregional research and development groups formed by economic zones developed in the course of lateral economic combination, involving several trades and employing different forms of ownership. They aim mainly at readjusting the structures of industry, technology, and products; advocating the development of resources, products, and technology; and promoting moves to make technological progress in the region.

3. General research and development groups. They are formed by linking relevant branches of learning and departments, science and technology units, as well as production and construction units based on the key projects, key development projects, and key projects of technology import of the state, province, and city.

The second is to classify them by the nature of the prominent member in a group, which are classified into three categories:

1. Groups formed by enterprise groups joined by research institutes and led by production enterprises. These groups take key production enterprises as their core and take famous and quality products as their "leaders." They consist of several independent enterprises connected by certain economic and technological links, as well as research institutes with advanced technology or technological achievements, and in which such institutes are responsible only for the technological work of the groups. Still, there are a variety of groups formed by enterprises joined by research institutes, or participation by research institutes absorbed by economic links, as follows:

(a) Incorporation through structural changes. This refers to breaking the boundary between institutions and enterprises, as well as those between ownership by the whole people and collective ownership in the old system, and implementation of a group's standards upon being incorporated by the group. For example, after being incorporated by the Shenyang car industry group company, the Shenyang research institute for light vehicles changed its establishment from an institutional one into an enterprise one, and its wage standard followed the one adopted by the group, so that the two units became one.

(b) Incorporation by counterpart organizations. Most of these groups are formed by large research institutes and large enterprises that share the same specialty and are at the same level of the same field or department. Administrative means adopted by the competent department play a more important role in this category of incorporation. For examples, the Changchun research institute for vehicles was incorporated by the Jiefang automobile group, and the Wuxi branch of No 24 Research Institute of the Ministry of Electronics was incorporated by the Meihua electronics group. The nature of such institutes and enterprises usually remains unchanged after the research institutes join the enterprises.

(c) Incorporation through dissolution. The research institute in question is disbanded after being incorporated by a group. For example, the Shanghai research institute for bicycles was divided into two when it was incorporated by the Fenghuang and Yongjiu groups. In another example, the scientific and technological personnel of the Changzhou research institute for bicycles became part of the Jinshi group and augmented the group's technological development force.

(d) Joint operation. Such groups often incorporate research institutes of a certain trade with the status of legal person, and economic contacts between such institutes and the groups are conducted in the form of contracts. For example, upon incorporation, the Beijing research institute for chemical articles for daily use undertook research work for 12 enterprises run by the Beijing Liyuan chemical articles group holding company.

(e) Incorporation by several groups. Such groups usually consist of a complete range of research institutes, and are formed when no other groups can incorporate them; these research institutes divide themselves into units for specialized research work and let the units be incorporated by enterprise groups. For example, Shanghai Coal Research Institute divided itself into special units and was incorporated by three enterprise groups based on the principle of sharing the same status in the work.

2. Technologically pioneering groups formed mainly by research institutes. The main activity of such groups is research and development by research institutes, and operational activities concerning production, supply, and marketing of their production enterprises are led by personnel appointed by such institutes. Some enterprises are also pilot-scale production bases or experimental factories of such research institutes. For example, Sitong Research and Development Group, which consists of the state-owned Ludao Company, Zhida Company, and Yunnan Electronics Equipment Factory, helps these enterprises show their potential and turns them into a joint development base for the group.

3. Groups jointly run by research institutes and enterprises. These are divided into three categories: The first is a group of research, production, and operation entities jointly formed by independent research institutes and materials production departments, which specialize in a certain field and cooperate with each other to develop products. The second is a group jointly formed by research institutes and enterprises, and to which the research institutes contribute technology as their investment and to which enterprises contribute equipment, factory, and labor as their investment. The third is a group formed on the basis of mergers between research institutes and production enterprises, which combines research work with production based on the principle of specialization and unification. This category of groups opens a new way to combine research work with production by research institutes and production enterprises.

The third is to classify them by mode of operation, which is determined by the form of investment in the research and development groups, in respect of which there are three categories: (1) Research institutes make their investment in the form of technological achievements converted into capital. The advantage of this kind of investment is that it clarifies the liabilities of investment. (2) Research institutes make their investment in the form of technological achievements and capital. The advantage of this kind of investment is that it helps fully utilize internal resources of the research units. (3) Enterprises invest in research institutes, that is, the production enterprises annually provide a fixed amount of research funds to the research institutes, so that such institutes in return provide the technological achievements required by such enterprises and enjoy their share of benefits derived from the operation of the group. The advantage of this kind of investment is that research institutes can

secure their source of research funds and have the orientation of their projects, thereby overcoming the practice of acting blindly in their research work.

## **II. Present Situation of China's Research and Development Groups**

Generally speaking, the development of research and development groups in China may be divided into four levels in accordance with the degree of advanced technology, content, and quality of personnel employed by the combined organizations, namely high-level links of technology, combination of production and technology, middle-level links of technology, and low-level links of technology. At present, the number of high-level technologically pioneering groups in China is just about 30, including China Keli high-technology group, China Daheng technology group, China Datong electronics technology group, the radioactivity-technology development group under the Chinese Academy of Sciences, and Sitong electronics technology group run by civilians in Beijing. Besides, most of them are at the preliminary stage of laying their foundation. China currently has 4,000 to 5,000 production-research combined groups joined by research institutes and institutes of higher education. In addition, low-level scientific cooperation, which engages in a complete range of research and production activities, is the most popular form and is largest in number. The number of middle-level links of technology, which offer a large variety of research-production complexes, is more than 10,000 in China.

Although China is developing its research and development groups, the pace is slow due to a variety of reasons. The major problems and difficulties at present are:

1. Most of China's enterprises do not feel the urge to make progress by relying on science and technology. According to a national survey of 6,800 large and medium-sized enterprises conducted by the relevant department, 10 percent of them felt that they needed technology badly, 20 percent of them felt that they needed technology but not urgently, and 70 percent of them felt that there was no need to make progress by means of technology, since their products were quite popular.

2. An absolute majority of China's enterprises lack both funds for their technological development and channels to secure capital. In industrially developed countries, the proportion of technological development expenditure of an enterprise to its gross sales volume is generally about 10 percent. However, such a proportion in China is only about 0.3 to 0.5 percent of output value. In accordance with regulations stipulated by the Ministry of Finance applicable to experimental units, an enterprise may retain 1 percent of its sales volume as technological development funds, and 3 percent of its increased sales volume derived from the application of new technology and new processes as funds payable to its scientific and

technological personnel as bonuses. In practice, however, it is very difficult to realize these kinds of funds, and very few units implement such regulations.

3. There is no mechanism integrating research with production, and it still lacks a rational environment for enterprises to compete. Though China continues to carry out reforms of its economic structure and science and technology system, there is still the phenomenon in which the status and distribution of responsibility concerning capital, pricing, profitmaking, and taxation among enterprises are actually unequal. Currently, only medium-sized and small enterprises, as well as town and township enterprises that are flexibly run and compete with each other feel the immediate need for technology. Nevertheless, their source of capital is limited, and they fail to attract or influence the technology market or research institutes.

4. Many enterprises put too much emphasis on technology imports from other countries but neglect the development of their own. At present, because of the actual conditions and limitations imposed by the policies, many units prefer spending a large sum of foreign exchange to import technology and production lines from other countries, rather than absorbing technology and processes newly developed by China. It is because it saves time and trouble to import technology, and they neither must go around to get equipment and raw materials nor take risks to ensure the quality of technology services and the time of delivery. Besides, technology is imported at the expense of the state, whereas China's own technology is absorbed at their own cost.

5. The current taxation policies do not have a clear stipulation on research-production combines and research and development groups. Tax departments at various levels take different viewpoints on levying taxes on them. While some have been exempted from taxes, the revenue received by most research institutes from such combines is still being taxed at a rate as high as 5.5 percent, so many research institutes do not actively move toward development of such complexes and groups. Some of them even take a step backward and turn such relations into technology transfer.

The development trend of research-production complexes and research and development groups is closely related to China's development of productive forces and development level. For a considerable period of time, now and in the future, in order to satisfy its multilevel productive forces China can only take the mode of jointly developing a flexibly arranged and coexisting structure consisting of technologically pioneering groups, production-research combined groups, research-production complexes, and groups engaging in a complete range of research and production activities. The high-level combines and combined groups are an inevitable result after socialized mass production has reached a certain level. The middle-level combines are presently the most promising pattern to fully tap the potential of

China's current research institutes and production enterprises. It is also an important pillar of the contemporary comprehensive development of China's national economy. Low-level combines provide the basic guarantee for China's rural areas to achieve prosperity and to narrow and eventually eliminate the difference between urban and rural areas. Therefore, it is inevitable for us to rationally establish research and development groups and production-research groups, to greatly develop various kinds of research-production complexes, and to develop orderly cooperation between research and production, in order to meet the objective requirements for maintaining a continuous and stable development of China's national economy.

### III. Measures for the Development of Research and Development Groups in China

In order to promote a healthy development of China's research and development groups, we should adopt the following measures:

First, we must provide conditions for enterprises to create technology and boost their capability to absorb and develop technology. We should promptly establish a system of indexes for assessing the extent of technological progress made by an enterprise and spell out the requirements for making technological progress, so that enterprises will feel the urge to make progress by relying on technology. This thus develops friendliness between enterprises and research institutes as well as scientific and technological personnel, and promotes a firm integration of research with production.

Second, the formation of research-production complexes and research and development groups should be based on the principle of volunteering, mutual benefit, and equality. Both research institutes and the groups incorporating such institutes or each of the parties in a research and development group have to face many specific and practical problems in the formation process. For example, they may not have the same extent of specialization. The scope of specialization covered by a research institute is different from that required by a production enterprise. Also, the research institute may lack a certain technology required by the production enterprise. Therefore, such a process must be based on the principle of voluntariness, so that enterprises and research institutes form their groups on the basis of mutual benefit and equality.

Third, we should correctly handle relations between research institutes and production enterprises in the groups. The direction of research conducted by research institutes must be consistent with the development plan of the group in question. Such institutes should take the group's strategic goal of technology and production development as the direction of their research work. The subject of research and the development tasks of such

institutes should be geared to the need to solve technological problems encountered by the group in its development of new products and in this technological transformation. However, they may enjoy a certain degree of autonomy and undertake some research work and assume consultative posts for other units. The amount of research funds taken in a year by the research institutes in question before incorporation by groups should be taken as the base for allocation of funds to the same institute for the purpose of research activities, and any use of the funds other than for the above purpose is prohibited. The distribution of revenue received by the research institutes derived from their "four types of technology" activities for other units should be subject to the negotiations between them and enterprises. After the incorporation of research institutes by groups, their wage and award standards may be subject to those adopted by institutions and units, or may follow those adopted by enterprises. The principle in this respect is that a uniform standard should be observed at the higher level rather than the lower one. The distribution of staff and workers hired by the research institutes should follow changes in the level of profits retained by the group, as well as the level of wages and awards received by the group's staff and workers. In addition, they should bear in mind that their research institutes should make contributions to the group. In other words, staff and workers of the research institutes will get more awards and benefits and their wages will be increased whenever they make more contributions.

Fourth, we should simultaneously carry out reform in different areas, and gradually switch tracks. We must simultaneously reform the structures of economics, science and technology, and politics. Government departments must streamline the structure and decentralize the decisionmaking power. The direct management of research institutes and enterprise groups should be replaced by the indirect approach, and coordination services and guidance concerning the principles should be given. We should expand the autonomy of enterprise groups and research institutes and gradually decentralize the personnel, financial, award-giving and other authorities to the lower level, so that research and development groups are really autonomous economic entities. Research institutes of different types and natures should be subject to different financial management systems. We may gradually reduce the amount of funds allocated to them, and urge them to assume sole responsibility for their profits and losses within a time limit. We may determine a fixed amount of subsidies to them, or grant them science and technology loans with interest thereon, to urge them to speed up their reforms and create external conditions for the formation of research and development groups.

Fifth, we must formulate corresponding and supportive preferential policies. In terms of taxation, we may refer to the measures for products made by pilot-scale production so that taxes on products made by newly developed technology may be exempted within a prescribed period.

Following assessment of production capacity through pilot-scale production, such products may be subject to tax-free preferential treatment within a prescribed period in accordance with the regulations on new products. The share of profits distributed by a research-production complex to its research institutes should be exempted from the income tax for a short term. We must increase the proportion of technology development funds to the amount of profits retained by enterprises. We must adopt preferential policies for projects of technology transfer, technology consultation, technology services, technology training, and technology contracts conducted in China, so that both enterprises and research units can benefit from it and boost their strength.

#### Linkage of Prices, Wages, Interest Needed for 'Broad' Reform

CHINESE BEIJING JINJI CANKAO in Chinese  
21 Feb 89 p 4

[Article by Zhang Zhunyuan 1728 0387 0933: "Developing From the Narrow Sense to the Broad Sense in Price Reform"]

[Text] Since 1979, China's price reform has gone through two phases. Prior to 1984 the focus was on the regulation of various commodities (and labor services); during the period 1985-88 the focus was on development of various commodities (and labor services). In a nutshell, the last 10 years were concerned chiefly with price regulation and reform in the narrow sense. Starting in 1989, price reform in China will enter a new phase. It will be characterized chiefly by regulation and reform in the broad sense of linking prices, wages, and interest rates. Only with the giant leap from this phase will market mechanisms truly emerge, and the leading reform of the market make substantive headway.

Since 1983 a moderate level of inflation has appeared in China, making it even more necessary and urgent that we link prices, wages, and interest rates. Now we must deepen our price reforms and put price relationships in order. We must link prices, wages, interest rates, and exchange rates, carry out systematic price regulation and reform, as well as come to grips with the causes of price rises and the inflation those rises cause. There should be wage increases or subsidies as compensation. Interest rates should be raised so that the actual rate of interest is a positive and not a negative number.

In order that the linkage be carried out in an orderly way, consider that substantial progress has been made in price reform over the years, while wage and interest rate reforms have just begun. To ensure that changes in the macroeconomy are controllable, the present price reforms are being implemented with a focus on relaxing controls, while wage and interest rate reforms are being implemented with regulation as the focus.

Consider that in the present process of price reform, there can be no avoiding price rises. Therefore, wage reform must initially resolve the question of compensation, while simultaneously perfecting the structure, to ensure that workers' real income and standard of living do not decline. Those management methods which stimulate wages inappropriately still need to be cleared up. Before there emerges in the labor force market a wage system which is competitive and binding, we cannot totally abandon wage controls. Currently, in the wage allocation structure, there are things which stand out as mutually contradictory. Wages tend to be low in operational enterprises, so it should be noted that the nation is still powerless to carry out a complete structural wage reform. Also, we should reinstate a system of scheduled wage increases, rectifying the inappropriate action which ended scheduled increases after 1985.

To coordinate wage reforms and a rise in interest rates, we should implement a tight money policy. Experience abroad has shown that in a commodity economy interest rates are a most important tool for carrying out macroeconomic management, and raising these rates is a useful measure for controlling inflation. If we are to control the economic environment while deepening reforms, it is essential that we conscientiously use interest rates as a lever, linking prices, wages, and interest rates. The first step is to raise interest rates on loans to the actual level of wage increases; next, to ensure that the actual interest rate is a positive number, raise rates to the expected level of price increases. The value of this number can be kept in the range of 2 to 4 percent, thereby stabilizing deposits and the economy. Only after several years of effort, with the progressive emergence and development of money markets, can we have interest rates which are regulated according to the supply and demand of the money market. At present, the focus is still on regulation according to the national plan.

Besides this, compensation for municipal real estate should be put to use as soon as possible, and sale of ownership should be permitted. The bulk of differential income from land is chiefly given over to the state as finance. Every change in the use of land results in the rent being set anew. Similar to the use of land, the use and development of mineral resources, water resources, and timberlands should result in tax payments from rentals.

The exchange rate of the renminbi in the present stage still takes state regulation as the standard. Regulation of the exchange rate by the market, including elimination of exchange rates, is something I fear cannot be carried out before a long period of preparation.

We can anticipate that developing from the narrow sense to the broad sense in price reform, opening up, and deepening price reform in the broad sense will combine with reforms of the interest rate system, the wage system, the land management system, and the foreign exchange system to form a massive tide of reform. This will further

the emergence and perfection of a new economic movement mechanism in which "the state regulates the market, and the market guides the enterprises." This will make our social and economic lives steadily turn to sound development in a new system.

(Original title: "Breakthroughs in Price Theory Are the Impetus for Advancing Price Reform")

## FOREIGN TRADE, INVESTMENT

**'Thorny Problems' Hamper Foreign Trade Reform**  
40000479 Beijing GUOJI MAOYI J/INTERTRADE/ in  
Chinese No 2, 27 Feb 89 pp 33-39

[Article by Wang Deyun 3769 1793 0061 of the Foreign Economic Relations and Trade Commission, Hunan Province: "Create Conditions for Fair Competition; Deepen Foreign Trade System Reform"]

(Text) So-called fair competition means to acknowledge that all competitors in a market enjoy an equal position and the right to compete. Naturally, no matter the system, this fairness is limited. In a certain sense, efforts to create such conditions of fair competition are not only indispensable to development of a commodity economy, but also are a historical task for hastening and deepening reform of the foreign trade system.

### I

In 1979, China took the lead in reforming its foreign trade system. It delegated authority to manage foreign trade and to open combination industry and trade pilot projects, correspondingly reformed the foreign trade plan management system and administrative control, adopted policy measures to encourage exports, and devoted serious attention to conducting business in accordance with international practices, trying out many things and scoring certain achievements. Import and export trade figures for the country as a whole increased from \$20.67 billion in 1978 to \$67.3 billion in 1987 for a 3.26-fold increase over a 9-year period, or an average 13.9-percent annual increase. The opening up and development of foreign trade greatly increased openness in building the national economy and accelerated the pace of modernization.

In order to ensure sustained and consistent development of foreign trade, China further accelerated and deepened reform of its foreign trade system during 1988, pursuing an across-the-board foreign trade contract management responsibility system. Since this new system has gone into operation, contract management has been shown to have inspired reforms. The situation provides cause for optimism. This is truly something that has been dreamed about for many years. However, some problems that have shown up in existing reform plans also remind that reform is positively no easy matter. Numerous problems requiring study and solution remain before reform of the foreign trade system reaches its anticipated goals. One of

them—whether it will be possible to create conditions for fair competition among export businesses—has become an important issue that will brook no delay in deepening reform of the foreign trade system.

It is generally appreciated that China today is still in a period of transition between a planned economy and a commodity economy, and it is developing international exchange of commodities while its domestic markets are very undeveloped. Foreign trade businesses that find themselves in this special circumstance must simultaneously orient themselves toward two markets that are completely different in character, toward two price systems between which a huge gap exists, fierce competition in buying and selling, trade protection barriers in the international marketplace, and especially a great lack of external conditions for fair competition in the process of engaging in domestic export work at the present time.

First is the difficulty of organically integrating foreign exchange earning with profitmaking. Because the level of science and technology in China at the present stage is low, productivity backward, and the economy as yet undeveloped, a large percentage of exports are primary products, which are in a very disadvantageous position in terms of the price they can command. Consequently, frequently their export does not necessarily earn a profit. At the same time, because all domestic production and supply units quite naturally and understandably require a profit when they provide export goods to foreign trade businesses, and since foreign exchange is earned for the purpose of providing "hard currency" for the country to improve its international payments capacity, this is a tough and thankless task. Thus, foreign trade businesses are frequently caught between internal and external difficulties. Their motivation for pursuing exports is frequently at cross-purposes with their motivation for making a profit.

Second, since the country's various economic levers are not yet fully phased in, an "obstruction of the bowels" is created in the operation of the foreign trade economy. Foreign trade departments must maintain wide-ranging contacts with all trades and industries, and all departments in order to determine the nature of their work; however, price relationships in China today are far from orderly, and the tax collection system also does not work effectively. In particular, no self-regulating mechanism has as yet been established for renminbi exchange rates, which are so important to foreign trade businesses. Distorted and rigid prices, and skimpy and retarded markets mean that foreign trade businesses are unable to pass along international commodity market price signals automatically, rapidly, and accurately. At the same time, neither can they attain the goal of improving the mix of import and export commodities, lowering export costs, and expanding foreign exchange earnings through exports. In addition, the enormous difference between plan price and market price of a single product also frequently means that the administrative authority of the

units becomes the material basis for market value. Consequently, the authorities take a little "squeeze" on any product that may possibly qualify for export.

Third, the difference in policies between one area and another leads to foreign trade business in the country being unable to compete on the same footing. An example is dual foreign exchange rates, namely the official rate and the market rate, between which there is a very great difference. Consequently, the amount of foreign exchange that a jurisdiction may retain as set by national policy actually directly translates into a disparity in the prices they can pay for exports among foreign trade enterprises in the country. This is bound to lead to scrambles by export businesses to procure readily salable goods and round after round of price increases by suppliers of export goods, resulting in export procurement prices that do not reflect true production costs. This artificial raising of price levels for export commodities has become more than most domestic foreign trade business can bear. In addition, there is no sellers' market in China today. The rush to export has mostly put the squeeze on products in short supply and on readily salable products. Thus, "wool wars," "rabbit fur wars," "ramie wars," and "silkworm wars" are naturally commonplace.

The lessons to be learned are that wars of these kinds have previously not only created an outflow of profits, but have also mostly seriously hurt the production and export of some staple products. Foreign trade businesses in some major production areas had to carry a burden that they were unable to remove for several years, and this had an extremely bad effect on both the image of foreign trade business and the development of foreign trade.

Fourth, the position of foreign trade units does not match their responsibility, a situation resulting in "small horses pulling big wagons." Practice both at home and abroad shows that the extent to which foreign trade is open and developed directly conditions a country's degree of openness. This means that the work of foreign trade units has a bearing on the national economy as a whole. However, since the volume of China's foreign trade as a percentage of GNP is not great, and because of the level of domestic economic development, people's ideas about consumption, etc., there is still a very great gap in the development of foreign trade in comparison with the world market. This means that all jurisdictions and all departments are very unwilling to place the development of foreign trade in a prominent position. Consequently, trade control units at all levels actually find it very difficult to undertake a coordinating function with regard to issues that affect the situation as a whole. Coordination of some matters among several units that provide overall balance leaves one with a deep sense that they are spinning their wheels excessively. Thus, much foreign trade potential remains not fully realized because of restrictions that the system imposes.

Fifth, the structural ranking of foreign trade businesses in which government-run businesses are not differentiated causes unfairness in remuneration among businesses. Logically speaking, as the economic cells of society, businesses can only be divided into large, medium-size, and small on the basis of relevant economic indicators such as volume of business, number of staff members and workers, and amount of fixed assets, enjoying corresponding remuneration on the basis of these factors taken together with the economic returns they make. However, nowadays foreign trade business in all jurisdictions, and particularly numerous foreign trade businesses set up in recent years from the central government to local areas, are administratively ranked. As a result, many newly founded foreign trade businesses have slight responsibility for earning foreign exchange. When a business is ranked very high, the duties of its workers rise correspondingly, and it is relatively easier to make a profit. This creates a tremendous impact on those foreign trade companies that bear a heavy responsibility for earning foreign exchange but that have been ranked low. This is particularly true with regard to their ability to retain professional permanent cadres who have worked on exports for many years in foreign trade companies, the recruitment of talent, and the fulfillment of national foreign exchange earnings tasks.

## II

All jurisdictions called attention long ago to the foregoing problems, but in the reform of the foreign trade system during the past several years, since this less-than-fair competitive environment has not threatened the success or failure of foreign trade operations, it has failed to attract sufficient serious attention. However, beginning in 1988, each jurisdiction contracted three base figures with the state, including a base figure for foreign exchange earnings from exports, and a base figure for payment to the state of foreign exchange, with no change to be made for 3 years. This was, in fact, a transitional form of operation in which export companies took responsibility for their own profits and losses, so enterprises naturally strongly demanded that both the external environment and internal conditions be such that they could be responsible for their own profits and losses. It is simply because it has not yet been possible for all enterprises to have an equal position and competitive rights that the further deepening of reform of the foreign trade system has encountered thorny problems.

A. Export Businesses Universally Lack Built-In Motivation for Assuming Responsibility for State Foreign Exchange Earnings Tasks Within Base Figures. For foreign trade businesses in most areas of the country, particularly in inland provinces and regions, most of the foreign exchange earnings within contracted base figures must be turned over to the state, and the small remaining portion must also be retained by the local government, departments, and export production and supply units. Foreign trade enterprises themselves can only obtain renminbi at the official rate. Although the rate of

exchange for the retained portion from exports in excess of the base figure can supposedly be readjusted and rationalized, since foreign exchange cannot be taken before the base figure has been fulfilled, this is virtually tantamount to serving nothing but hope to the hungry as far as businesses that are responsible for large foreign exchange earning base figures are concerned. Thus, foreign trade businesses responsible for earning foreign exchange within base figures must both bear losses resulting from some price differentials attributable to overly high foreign exchange rates, and swallow price rises for export goods during the period of the contract. Consequently, the heavier the foreign exchange earning task within base figures, the greater the difficulties and the more severe the pressures, resulting in an abnormal situation of unequal sharing of weal and woe among businesses. In addition, foreign exchange collection rates are set too high, with the result that should only foreign exchange earnings within base figures be fulfilled but there not be sufficient to insure fulfillment of the foreign exchange quota to be turned over to the state, businesses must make up the shortfall out of exports in excess of the base figure.

As a result, businesses have taken to acting in two different ways. As the main force in the earning of foreign exchange at the present stage, businesses specializing in foreign trade have no choice but to tirelessly adopt multiple expedient measures such as selling export items domestically, mixing import and export items, and robbing Peter to pay Paul, including sacrificing the business' self-transformation and self-development potential to make up for overall losses. They are totally unable to do a good job on business tasks such as organizing sources of supply for exports and developing export markets. As a result, their reserve strength for the earning of foreign exchange through exports becomes increasingly depleted. At the present time, in particular, when prices have risen greatly and the effects of inflation are marked, the ever-increasing removal of restraints on prices for raw and processed materials has meant that foreign trade export businesses are facing new conflicts. Unless they raise their procurement prices, they are unable to buy from sources of supply, thus they will be unable to fulfill their contract plans. If they raise prices, they may exceed set costs, commodities on which they would have earned a profit accruing a loss, and low losses becoming high losses. Losses resulting from price rises are far greater than what businesses are able to accept and digest. It is for just this reason that businesses constantly ask that higher authority reduce quotas and lower base figures. Second, businesses that function as sources of supply for exports usually have a system whereby their total wage bill increases as their profits and tax payments increase. They lack incentive to work at the earning of foreign exchange since they derive no benefit from it, thus it is difficult for them to think along the same lines as foreign trade businesses. Export production enterprises' increases in profits and tax payments stem primarily from increases in sale prices nowadays. For this reason, production businesses want to

shift their supplies to sales in domestic markets. Such a mindless movement not only hurts inland exports that earn foreign exchange, but is also bound to lead to a great cutoff of the central government's foreign exchange income, which is difficult for both inland areas and the central government to bear.

Very clearly, these two kinds of business behavior run counter to the overall goals of foreign trade system reform.

**B. Worsening Situation of Local Protectionism and a Mutual Walling Off Among Provinces and Regions, Prefectures and Counties.** The key step in foreign trade system reform plans is to follow the administrative procedures of the existing system in local contracting and the delegation of authority. This choice is consistent with realities, given the unbalanced structure of economic development. However, there are differences in policies in the unified domestic market, and differences in the extent to which prices have been freed from restraints, and the ability to bear price increases. A tremendous rise in market prices in one area inevitably has an impact on another area, and there is a shortage of sources of supply of exports that enjoy brisk sales. This unavoidably gives rise to friction among provinces and regions and between one area and another in the procurement of supplies for export. Consequently, the administratively separate jurisdictions and departments in the existing system have logically turned to the rapid open adoption of a wide variety of protectionist measures with regard to sources of supply, insofar as their authority permits, in an effort to monopolize local markets. Objectively speaking, such actions are for the purpose of fulfilling foreign trade quotas contracted with the state, and are seemingly beyond reproach. Nevertheless, they run contrary to the overall goals of system reform.

**C. Mutual Rivalries in Each Area's Formulation of Preferential Policies Have Made Conditions for Export Competition More Chaotic and Opaque.** The foreign trade reforms of 1988 placed a fair amount of emphasis on local rights, responsibilities, and returns without fully considering the improvement of macroeconomic benefits, the optimization of resources allocation, and the readjustment of the industrial structure. Because they keenly felt the lack of a unified "starting line," every jurisdiction took the initiative in formulating numerous additional preferential policy measures, some of which even exceeded their authority and further violated permissible tax reductions and the making of concessions, thereby making conditions for export competition more chaotic and opaque. Some state policies formulated to attain certain macroeconomic goals, such as policies with regard to import and export industries, may end up being shelved.

**D. Multiple Management Leads to Serious Weakening of Export Commodity Production Support Work.** Accompanying the removal of economic restrictions and greater

enlivening of the economy was a multiple management of foreign trade exports in which competitors rushed into the commodity circulation realm to buy up available sources of supply. Since they were "making a troussseau for someone else," and thus could not be certain of a return, those who supported the production of export commodities became less enthusiastic about continuing. Furthermore, the available supply of hot-selling goods was frequently insufficient to go around; all the supplies that sold for a good price and that could be readily exported were snatched up. This further stimulated price rises, thereby increasing export costs. One situation meriting particular attention is that, frequently, companies operating out of a briefcase hurt export businesses responsible for foreign exchange quotas, and operations outside of plan hurt operations inside plan for a further worsening of the foreign trade export environment.

### III

Problems that arise as a result of reform can naturally be solved only through the deepening of reform. How then can conditions for fair competition be created while reform of the foreign trade system is being accelerated and deepened? The writer believes work must be done in the following regards:

A. **Destroy regional trade protectionism.** The dividing up and monopolization of markets in the organization of export sources of supply has both the inertia of the old system and the shortcomings of the contract system per se. For example, objectively speaking, the mostly cutting up into pieces of the various contracting norms that serve as command plans can generate certain conflicts with the optimum allocation of resources. Unequal competition among areas can also doubtlessly arouse administrative interference in each areas. The key to destroying such a situation lies in the abolition of "special policies." Because special is different from preferential, special being unfair by its very nature, only by abolishing the special, and the establishment and perfection on the basis of common interests of a system that everyone will want to abide by, plus preferential policies, can create an optimum and equal climate for investment. Such a basis will both bring into full play the enthusiasm for contracting of all jurisdictions, and permit the existence of multiple levels and multiple types of foreign trade companies that cut across regional lines. By encouraging these companies to compete with one another, each jurisdiction can actively encourage local export and production enterprises to find for themselves a "husband's family" that provides good economic benefits, the competition mechanism in the export business only then being able to shape up in a truly healthy way, and both foreign trade procurement and export prices only then being able to become rational.

B. **Curbing of short-term behavior in exports.** This kind of short-term behavior is manifested prominently today in some export businesses not hesitating to pay higher prices in order to buy goods inside China or selling them

at lower prices in order to compete abroad. This throws both markets and prices into confusion, and is very bad for both production and the development of the export trade. The key reason is that foreign exchange retention has developed into a kind of economic subsidy by which the same kinds of products exported from different areas, or exported within or outside of basic contracting figures, can fetch a different percentage of foreign exchange retention. In addition, reallocations at different exchange rates generate enormous gaps in real economic benefits, thereby placing all export businesses, particularly export businesses having different degrees of contracting quotas, in an unequal competitive position.

In particular, enterprises in special economic zones having direct foreign trade operating rights enjoy special remuneration on this account. They can make more profit than the general market in which there is competition to purchase goods at much higher prices from everywhere and sell them in the international market at relatively low prices. This not only seriously hurts other foreign trade business procurement of goods, but also damages overall price stability of China's export wares in international markets. This is one of the main reasons for sales of export goods through illegal channels. These abuses have to be completely rooted out, and drastic measures used to deal with the situation. In foreign exchange retention policy, every effort must be made to achieve equal treatment without discrimination for all jurisdictions and for all kinds of foreign trade businesses, and then build things such as export chambers of commerce to improve coordination and support healthy competition in exports in order to curb short-term behavior.

C. **Simplification of export preferential policies.** Nowadays there is an ever-increasing number of central and local export preferential policies that create favorable conditions to expand exports, but also give rise to some problems that should be explored and remedied. Preferential policies carry numerous names that have never been simplified, and that have also not been publicized. This makes policies more opaque. Some have never gotten beyond the document stage, and some cannot be readily linked to businesses' economic returns and lack binding force, in fact. Complexities in planning preferential policies, very great problems in execution, and difficulties in honoring some of them have made people lose faith in them, so that they have not been reflected directly in the encouragement of exports. The gap between one area and another in the extent of preference is very unfair. The unequal sharing of weal and woe among foreign trade business in China is largely not the result of administrative control, but rather of the difference in preferential treatment enjoyed as a result of policies that enables some companies to rely on preferential policies to continue to survive. Thus, though the state and local governments have made a very great investment in preferential policies, they have been unable to completely attain their goal of effectively encouraging exports. In addition, prevailing preferential

methods are prone to being mixed up with some administrative and artificial interference factors, which also hurts the creation of conditions for fair competition.

This shows that simplification of existing preferential policies is urgently needed. The turning over of foreign exchange to the government should be changed to a system whereby a tax is levied on foreign exchange, all after tax foreign exchange being retained by the business engaged in the export trade. I believe this is desirable. The problem is how can the central government's foreign exchange revenue be guaranteed? The writer believes that foreign exchange may be purchased from businesses at the reallocation price, and when necessary, a percentage that enterprises must reallocate to the state can be set, the percentage or even the price within the set reallocation possibly being suitably lower than the market reallocation price. It should be realized that inasmuch as the country's foreign exchange market system is very imperfectly developed, the prevailing reallocation price is also in an abnormal state. As exports and foreign exchange increase year by year, foreign exchange reallocation prices will be bound to float to a rational level year by year, and central government foreign exchange revenues will also increase year by year. This will both strengthen the foreign exchange reallocation market mechanism, and be able to eradicate the problem of enterprises unequally sharing weal and woe to arouse enthusiasm among the numerous export businesses for earning foreign exchange. What can be wrong with that?

Can retention of foreign exchange by local governments, departments, and export production, and supply businesses be abolished? I believe not only that it can be, but that it should be. Since local governments and departments are not units bearing responsibility for their own profits and losses in making exports, their retention of foreign exchange is tantamount to egalitarian and indiscriminate transfer of resources among enterprises, which is harmful to the deepening of reform and the separation of government administration and enterprise management. It should be abolished. Past retention of foreign exchange by production and supply units was based on no foreign exchange markets having been opened. Foreign exchange retention enabled these units to use foreign exchange for some imports of raw and processed materials and for technical transformation. This problem no longer exists. In addition, the overvaluation of foreign exchange rates gives the volume of foreign exchange itself some renminbi value, a situation that is entirely different from that during the initial period of foreign exchange retention. In addition, expenditures for export sources of supply paid for at market prices are already compensated. Retention of yet another portion of foreign exchange that has a renminbi value actually weakens foreign trade businesses' organization of sources of supply and export competitiveness, and it increases difficulties for foreign enterprises in contracting, which is very bad for the deepening of foreign trade system reform. Consequently, further practice of foreign exchange retention does not help in the removal of price

restraints when sources of supply for export are being organized, and it creates a great dispersal and precipitation of foreign exchange, which is not helpful in improving economic returns. Abolition of retention will help enliven markets for goods to be exported, will strengthen the market mechanism, and will put in order export relationships, which is an important goal in the deepening of foreign trade system reform.

Naturally this may bring in its wake problems for local government and business use of foreign exchange, particularly the use of foreign exchange for the importation of industrial and agricultural means of production and key projects. It is also necessary to insure the availability of foreign exchange as backing for the use of foreign capital and to repay foreign loans. I believe that it is possible to set the prevailing amount of retention at slightly lower than the market reallocation price (say, lower than approximately 20 percent), businesses paying for its use. I also believe that a certain percentage (say, approximately 25 percent) of foreign exchange earnings from exports that are in excess of the base figure should be set by command to be given to the local government in accordance with market price allocation, thereby solving the problem, and satisfying both sides.

D. Restructuring of foreign trade operating procedures, abolishing administrative foreign trade companies. There is no need to be shy about saying that various behind-the-scenes reasons or the control of various privileges frequently motivate establishment of administrative companies. Such companies usually have very little or no responsibility for fulfilling foreign exchange quotas, and the quality of their professionalism is not high in most cases. Nevertheless, they can use their privileges to make a little profit, or even enjoy "special remuneration" from quotas and permits, or use administrative orders and planning to get hold of sources of supply of export goods in very great demand. Inevitably the result is an increase in intermediate links, an artificial intensification of unequal and unhealthy competition, a stifling of the initiative of the main forces that earn foreign exchange, and a weakening of the potential that is liberated by reform of the foreign trade system. Consequently, from the central government to local governments, there is a very great need to carry out a conscientious housecleaning and restructuring of administrative foreign trade companies. At the same time, new approvals of businesses enjoying foreign trade operating rights also requires a single set of policies and not multiple sets of policies that apply as well to administrative cadres at all levels of government not being allowed to approve by command the establishment of new export companies. Instead authorized functional units should set strict conditions for examination and approval, and should, on the basis of needs and possibilities, act in a regulated and step-by-step way to permit businesses that are truly qualified to proceed to the front line in earning foreign exchange through exports, conscientiously preventing a headlong rush.

**Regional Contracting 'Beneficial' to Foreign Trade**  
*400000420 Beijing GUOJI MAOYI WENTI /INTERNATIONAL TRADE JOURNAL/ in Chinese*  
*No 2, 28 Feb 89 pp 42-44*

[Article by Yao Jun 1202 6311 of the Governmental Economic Research Center of Nantong City in Jiangsu Province: "My Humble Opinion on Regional Contracting in Foreign Trade"]

(Text) During 1988 regional contracting of foreign trade was an important measure in the thorough reform of the foreign trade structure. This measure was implemented nationwide and changed the longstanding situation of China's foreign trade eating from the state's "big pot." The lack of separation between government and enterprise and foreign trade interconnecting the two has created an excessively stifling situation. It has been proved during the past year that implementing regional contracting of foreign trade has played an active role in the reform, however, there are some problems that require further perfecting.

**I. Implementing Regional Contracting Is an Effective Way To Invigorate Foreign Trade Management**

The 13th CPC Central Committee report pointed out that in order to further expand foreign trade we must favorably promote foreign trade enterprises having sole responsibility for their profits and losses, relax management, integrate industry and trade, carry out the agent system, and reform the foreign trade structure in a determined and measured manner. This is the basic goal and orientation of China's foreign trade structure reform. It can be seen through actual practice of the reform that under the present situation, implementing regional contracting of foreign trade is a comparatively effective measure.

First of all, implementing regional contracting of foreign trade has smashed the traditional foreign trade structure's highly concentrated power and has changed the unified management of foreign trade of the past to a form where unified and dispersed management are combined.

This change is beneficial to the further arousal of local enthusiasm for developing foreign trade and enlivening foreign trade production and management.

Second, carrying out regional contracting of foreign trade to a certain degree has smashed the longstanding situation in China's foreign trade of eating from the state's big pot. It has changed from the central authorities having financial responsibility for profits and losses while assigning localities individual tasks. This has been beneficial in solving problems of financial limitations experienced by the state in expanding exports, has lightened the state's financial burden, and has also been beneficial in making localities concerned about foreign trade management and supervision, putting effort

toward increasing connections, raising efficiency, and in gradually solving the problems of disjointed local contribution levels and benefit distribution.

Third, regional contracting of foreign trade is beneficial in changing the monopoly in foreign trade management and creates a good external environment for opening up competition. The foreign exchange management units of provinces, municipalities, and counties have switched from the original unified management to the present form of individual management and have changed the original relationship of unified and equal responsibility for profits and losses to one where the partnership and competitive relationship of each is responsible for its own profits and losses, which has been favorable for developing fair competition between foreign trade enterprises.

Fourth, regional contracting of foreign trade has reformed the distribution and management methods of foreign exchange earnings. As for the portion of foreign exchange earned by localities and contracting units that exceed the base figure, these will be divided at the ratio of 2:8, and the entire amount of retained foreign exchange can be used. They can also enter the foreign exchange-regulated market to conduct compensation adjustment. This is beneficial for strengthening the overall abilities of localities and enterprises in utilizing foreign exchange, while raising the efficiency of its use. It helps localities and enterprises increase foreign exchange benefits and reduces problems in exchange and benefits.

**II. Several Problems In Regional Contracting of Foreign Trade Need To Be Promptly Perfected**

Even though regional contracting of foreign trade is playing the positive roles mentioned above, it still has many areas that have not been perfected. There are some points even in its own goals for foreign exchange structural reform where problems exist. During the implementing process there emerged some splits and repercussions from areas that were not closely linked during the change from the old to the new structure.

A. Regional contracting of foreign trade uses the assignment of local responsibilities as its major thrust and, although it smashed the monopoly of foreign trade management, it still strengthened the lumping together of benefits. This will easily lead to a loss of macroeconomic control and an overall drop of benefits from foreign trade. According to administrative levels and administrative regions assigning tasks to various levels, there emerged in actual practice, emphasis on partial and local interest, a trend of ignoring the overall interest that resulted in operation of the market and intensification of blockades between areas. Based on the low level of productive forces in areas for organizing foreign trade production and exports from the most advantageous angle, this is not beneficial and can easily lead to export costs being raised on a macroeconomic level and a drop in overall economic benefits. Nantong Municipality is

one of 12 textile production bases that produce exports with advanced processing. Prior to implementing regional contracting, a production network had already been formed that could link township enterprises, collective enterprises, and state-operated large and medium-sized enterprises; that was proficient in coordinating and connecting counties, suburbs, and cities, had overall benefits that were rather high, and elementary and advanced processing. After regional contracting was implemented, in order to guarantee completion of their own contracted tasks, various counties were unwilling to carry out production according to the former method of division of production. Often each carries out production in its own way, making it impossible to give full play to the advantages of advanced technology, low consumption, and high benefits for large and medium-sized municipal enterprises that produce textile products for export.

B. Regional contracting of foreign trade uses the local government rather than the enterprise as the main contracting body. Therefore, the cost of transfers for enterprises is constantly increasing. With the situation of subsidies for losses, in order to have more exports it is necessary to request local finances to give more subsidies, this doesn't allow them to correctly enter into the track of self-responsibility for profits and losses. Meanwhile, in order to complete their contracted tasks, local governments had restrictions and guidance for benefits of individually assigned tasks. Inevitably this will cause repeated expansion of contract figures and intensify direct administrative intervention of enterprise production management activities. In this case, enterprises will not be able to avoid using most of their energy haggling with superior departments and not be able to cast off the relationship of direct reliance on government. To a certain extent this will affect the vitality and mechanisms of enterprise.

C. Regional contracting of foreign trade is not a standard method and will lead to areas and enterprises not being able to compete under fair conditions. Because "one household, one rate" contract figures often depend on noneconomic factors, subjective considerations can be very strong in them. This creates unfair competitive conditions for localities and enterprises. When you add to this the different financial conditions of each area and the different ways they enjoy state preference through policy, the differences of each enterprise will cause enterprises in addition to being faced with the factors of unequal prices and taxes, also increases new unequal factors that are bound to force up commodity prices and cause panic buying, force export prices down, "fertilizing and watering foreign fields," and "whipping the fast ox," while giving into a backward situation.

D. In the process of implementing regional contracting of foreign trade, the change from old to new economic mechanisms not being closely linked has brought about splits and repercussions. Regional contracting has created a great change in the foreign trade management

structure. Enterprises that have unified commodity export management by the state, various local foreign trade import-export units, branch companies, foreign trade self-managed enterprises, and various other localities that have had management passed down to them; provinces, municipalities, and county foreign trade management units have changed from the original upper and lower level relationship of unified management and joint responsibility for profits and losses to the present competitive relationship of individual management and each being responsible for their own profits and losses. During the process of this change, due to the benefit relationship of various areas not being able to be put in order in a timely manner, and cooperative measures not being up to par emerged as poor coordination and difficulty in exploiting regional self-managed municipal work situations and other contradictions that affected the opening up of the market for foreign exports and caused export production enterprises to receive pressure from all sides and production to be in a difficult position: (1) After regional self-management, the situation of reduced manifests emerged in self-managed municipalities. This was caused, of course, by the factors of changing prices on the international market but we can't completely eliminate the considerations of provincial companies and the interests of joint-operated areas. We should give first priority to provisions for the problems of shipping manifests. (2) After regional self-management, a portion of export producing enterprises that formerly relied on raw materials supplied by provincial foreign trade companies fell into dire straits because materials were stopped being sent in or the price for shipping the material was raised. For example, prior to self-management the planned price for shipped in rolled steel was 850-900 yuan per ton. The price has now risen to 1400-1500 yuan per ton which caused the cost of export products to rise dramatically and put mills in a difficult position. (3) Along with the completion of regional self-management, the provinces passed down contracting quotas but didn't hand down corresponding circulating capital. The foreign exchange turnover and renminbi situation were extremely tight for municipal foreign exchange companies to the point where they couldn't develop normal economic activities.

E. The regional contracting of foreign trade and other reforms not being coordinated has affected the smooth progress of the foreign trade structural reform. With the current rising cost of exchanging currency, the states exchange rate being higher than the international exchange rate, and under the situation of having the international and domestic price systems separated and the tariff system not equitable, the expanding exports will also increase losses. This will result in localities and enterprises being faced with choosing between two difficult options, having renminbi and not foreign exchange or having foreign exchange and not renminbi. This has created conflicts between the financial responsibility system, the enterprise contracted responsibility system, and regional contracting of foreign trade. At the same time the regional contracting of foreign trade has

strengthened planned instructions and regional ownership but has experienced problems in developing the commodity economy and fostering the market system.

### III. Several Ideas on How To Perfect Regional Contracting of Foreign Trade

Looking at the progress being made in present economic development and reform, regional contracting of foreign trade will be an effective means for promoting foreign trade development for a fairly long time to come. In order to give better play to the role of regional contracting and to carry out thorough reform of the foreign trade structure, we must take aim at the imperfect areas that exist in the regional contracting of foreign trade. The overall goals and requirements must be further improved in accordance with the economic structural reform and the foreign trade structural reform and a good job must be done in preparing for the transition of opening up more layers for the foreign trade structural reform.

A. We should make separation of government and enterprise our goal and quickly carry through with giving the main part of foreign trade contracting to export producing enterprises and management enterprises. Under the conditions of the socialist commodity economy, the relationship of enterprise with the state and enterprise with enterprise have been displayed through the relationship of commodity funds. In accordance with the economic structural reform that requires separation of the responsibilities of government and enterprise, foreign trade production and management enterprises have acted as legally qualified commodity producers and managers, and should have independent management power. Independent management by enterprises and each being responsible for their own profits and losses should become the center link of the foreign trade structural reform. The regional contracting of foreign trade should also have its development revolve around this center link to realize, as quickly as possible, the position change of the principle part of contracting and to implement the contracted management responsibility system into trade production and management enterprises, thereby overcoming the current corrupt practices brought about by various levels of government acting as the principle contractors. Foreign trade contracting should have combined industry and trade and combined technology and trade enterprise consortiums, export base enterprises that have direct exporting power, and trade companies that have fairly good terms of trade as its dominant components. It should also gradually push open doors for other export production and management enterprises. Along with cooperation in contracting, the powers for such things as importing and exporting management, and for holding trade and price setting talks should be given to enterprises so that enterprise can truly have free management on the basis of each being responsible for their own profits and losses while strengthening their vitality for participating in international competition.

B. Change the unified government function, establish and perfect the foreign trade macroeconomic control system. This includes formulation of economic laws and regulations and development of plans and specific and general policies. Carry out price guidance, inspection and supervision, and coordination of separating from the state, and cooperation, distribution volume, and prices for each foreign trade enterprise. We should utilize exchange rates, tax revenue, tariffs, prices, and retained foreign exchange, adjustment of award-winning exports and other economic leverage. Only in this way can the smooth completion of foreign trade contracting tasks be ensured.

C. Get a grasp on the work of linking and mediating the change from old to new economic mechanisms to reduce the splits and repercussions during the change process. Regional contracting of foreign trade should take into consideration the different situations of each municipality, start from the point of beneficially promoting foreign trade exports, and adopt various forms of contracting. Regional self-management municipalities can not be expected to "reach their goal in one step" but should conduct a safe and gradual transition. Self-management can be started in foreign trade companies and industry-trade and technology-trade enterprise consortiums that have relatively good conditions. For those that don't possess the conditions for self-management in the near future, we should work actively to create conditions for self-management and be sure to prevent disjointed management from appearing. For those that adopt joint management with provincial companies, an agent is suitable. During the contracting process, self-managed municipalities should get a good handle on the work of linking new and old channels of marketing. Prior to new channels being established, the original channels by all means must not be relaxed. The relations of original cooperative partners and joint management contracts with the above-mentioned companies can not be severed. Provincial foreign trade branch companies should have an attitude of supporting, helping, and cooperating with foreign trade branch companies of self-managed municipalities, give support to them during the initial work stages of self-management, especially in situations where foreign trade companies have inadequate conditions and management capabilities they can not refuse to have anything else to do with the matter, but should provide cooperation and direction in the aspects of customers, manifests, raw materials supply, coordinating funds, and management and administration. Of course contracting can also be combined which can act as a check in the provincial foreign trade company concerning support given to self-managed municipalities.

D. Speed up reform of the foreign trade structure, synchronize with other reforms, and gradually create an economic environment that is favorable for participation in the international circle. On the basis of changing the position of the principle contractor, gradually introduce foreign trade management into the track of self-responsibility for profits and losses. Have true opening

up of management in foreign trade, reduce the local ownership system, and reduce the restrictions on regional contracting regarding management of multiple trading ports of enterprises and intertwined economic combinations between areas. Along with this, continue to speed up the reform of the financial structure, price system, and other aspects, gradually eliminate the situation of foreign sales not being as good as domestic sales, and the contradictions in exchange affecting benefits. Constant improvement of the economic structure will cause foreign trade contracting to go along the correct path and promote smooth implementation of the foreign trade structure reform.

### Japanese Trade Expert Stresses Trust in Trade Relations

40060306c Shanghai SHIJIE JINGJI DAOBAO in Chinese 13 Mar 89 p 3

[Article by reporters Shen Yezun 3088 0673 0689 and Lin Hao 2651 6275: "Yoko Yamada Discusses China's Export Trade With Reporters—China Urged To Pay Attention to the Importance of 'Trustworthiness'—Arbitrariness in the Price Quotations of Chinese Export Goods Is Unacceptable"]

[Text] On 2 March, at the "Shanghai Foreign Economic Relations and Trade Talk," reporters took the opportunity to interview Madame Yoko Yamada, head of the delegation of Japanese importers of Chinese products who are here to take part in the trade talk.

As the conversation began, Madame Yoko Yamada cordially told us that she has been in her present line of work for 18 years. She started out as an importer doing business with Taiwan. Today, her business has expanded to more than a dozen countries and regions. When she first began doing business with Taiwan, it was like today's mainland, but nowadays, she finds some orders are more promptly completed in Taiwan than in Japan. She said her deepest impression of the Taiwan manufacturers is that they always try their utmost to please their customers. As for the present trade talk, Madame Yoko Yamada is pleased and said that, compared to the Guangzhou Trade Fair and the Shanghai Trade Fair she attended 5 years ago, this is a clear improvement. The scale of this trade talk and the dazzling exhibition of products are far beyond her expectations.

While she expressed total confidence in doing business with Mainland China, in response to the reporters' request, Madame Yoko Yamada discussed some shortcomings of the Chinese which need attention.

Although cordial, she was frank in saying that the most important thing in a business relationship is to establish a sense of trust on both sides. This is the key to success. Second, China's export companies and their workers must share the government's spirit and attitude; the whole nation must share the spirit of wanting to see the export trade expand. In this area, China still needs to

work harder. She presented the arbitrariness in the price quotations of Chinese export products as an example of an unacceptable practice. On this trip, she wanted to import certain Chinese products, and for the same style and the same material, Chinese prices were at first twice as high as India's, but after she mentioned it to the Chinese, she was told that prices could be dropped below India's. This kind of arbitrary price quotation, which gives no consideration to proper prices acceptable to the customers, will diminish the customers' sense of trust.

Furthermore, she added that when the Chinese introduce their products to the customers, they need to be better, and more fully prepared.

At present, China is implementing economic and foreign trade system reforms. Japanese merchants are paying close attention to this, their largest market in the Far East. Despite the many problems today, as the investment environment improves, as product quality improves, and especially because the Japanese people feel a special closeness to China, the Japanese merchants are more than willing to do business with China. On this trip, all of the 30 companies led by Madame Yoko Yamada are specialized importers of Chinese products, and 13 of them have contacted the mechanical, textile, and food product import-export companies and expressed interest in some purchases even on the first days of the trade talk. Madame Yoko Yamada said that internationally, besides these kinds of comprehensive trade talks, today there are increasing numbers of specialized trade fairs; they are more popular and are gaining in scope. She looks forward to participating in that kind of trade fair in Shanghai in the near future. She pointed out that Chinese products are not very competitive in the Japanese market today, and most of the products are average to lower grade products. In Japan, the customers are not interested in cheap but poorly made products. Nowadays, products have to be inexpensive and well-made.

Finally, Madame Yamada said that, although competition is intense in the Japanese market, as long as Chinese products meet the needs of the customers and as long as they continue to improve in quality and grade, they still have a place in the Japanese market.

### Official on Rectification of Foreign Trade Companies

40060433a Beijing GUOJI SHANGBAO in Chinese 23 Mar 89 p 1

[Article by Staff Reporter Li Hongmei 2621 4767 2734: "The Work To Screen and Reorganize Economic and Trade Enterprises Is Fully Under Way—All Economic and Trade Companies Surviving After the Reorganization Must Be Reported to the Ministry of Foreign Economic Relations and Trade for Examination"]

[Text] The State Council recently issued a circular on screening and reorganizing foreign economic and trade companies of all kinds. I interviewed an official of a

relevant management department of the State Council—the Trade Management Department of the Ministry of Foreign Economic Relations and Trade (MOFERT)—on the issue of how to implement the guidelines of the circular and carry out the screening and reorganization.

First, this official told me the motives in screening and reorganizing foreign trade companies. He said that in early October 1988, the central government already issued a decision on screening and reorganizing foreign trade companies. In February 1989, the State Council again issued a circular on screening and reorganizing foreign economic and trade companies of various kinds. This is to rectify foreign trade order, strengthen the control of export and import commodity circulation, insure the smooth progress of foreign trade structural reform, and facilitate the sustained, stable, and healthy development of foreign trade. Since the State Council adopted the decision to delegate the authority of examination and approval to lower levels, some local economic and trade authorities have approved the establishment of a large number of new foreign trade companies. Although most of them were justified and qualified for foreign operations, quite a few were hastily approved without considering their qualifications. For instance, a certain provincial economic and trade commission document authorized 130-plus companies to engage in foreign trade operations. Some of the enterprises were unqualified for such operations. As the number of companies and enterprises authorized to engage in foreign trade operations increases rapidly, competitive conditions remain unequal, macroeconomic management inadequate, supplementary measures unable to catch up, and some companies lacking in self-restraint. As a result, there is "too little gruel and too many monks," causing the sources of export goods to be severed from export channels and creating confusion in management. Consequently, some companies which have the ability to carry out export operations are short of goods; production enterprises and companies that possess the goods lack the ability to carry out export operations. Some foreign trade companies fail to deliver export goods on time. The percentage of contracts fulfilled is small—they wilfully alter contract agreements and the quality of export goods is not guaranteed.

A few companies established by various departments and commissions confuse government functions with enterprise management. Some companies fail to expand business years after founding. Because too many companies have been established under some departments or industries where export volume is limited, they fight over the sources of goods. For instance, there are five to six book export companies alone at the central level.

The foreign trade management official said screening and reorganizing foreign trade companies of all kinds is mainly to solve such problems as confusing government with enterprises, mixing bureaucracy with commerce, illegal operations, business disorientation, management confusion. The reorganization is focused on all kinds of

foreign companies established since 1988. According to the guidelines of the State Council circular, the government administrative and management functions of all foreign trade companies, except for a few which were directly entrusted by the State Council, must be revoked. Foreign companies of all types approved after 1988 must be re-examined.

The foreign trade management official pointed out that all foreign trade companies and enterprises engaging in import and export operations, which have disorderly management, poor economic returns, and deficits that cannot be remedied, must be reorganized within a given period by disbanding, merging, or revoking their import and export privileges. We should give full play to the original role of provincial foreign trade companies as main channels in foreign trade operations, support them in fulfilling their foreign trade contracts, and vigorously promote the import and export agent system. By disbanding or merging within a given period of time, all localities and departments must reorganize any international economic and technological cooperation companies dealing with foreign construction contracts or labor and production technology cooperations that have failed to carry out normal business operations after founding or engaged in illegal operations.

The official of the foreign trade management department said that in order to make sure that the screening and reorganization are carried out conscientiously after reorganization, surviving foreign trade companies established over the years in different localities and departments must be reported to MOFERT. After examination, MOFERT has the right to revoke or suspend the import and export privileges of unqualified foreign trade companies. After the screening and reorganization is over, large- and medium-sized production enterprises and closely-integrated production enterprise groups which directly handle the exports of their own products and the imports of their production needs may be examined and approved by local foreign trade authorities. All other kinds of foreign trade companies must be examined and approved by MOFERT. Regarding the examination and approval for the establishment of foreign trade enterprises, we should continue to perfect various laws, rules, and regulations in addition to necessary administrative means. In the screening and reorganization, MOFERT needs the vigorous support and coordination of departments striving to successfully fulfill this screening and reorganization task.

#### Inland Cities Face Difficulties in Direct Export HK1104042389 Beijing JINGJI GUANLI in Chinese No 2, Feb 89 pp 8-10, 13

[Article by Xu Guangbo (1776 1639 0590), Zhu Hong-gao (4376 3163 7559), Cai Yulin (5591 3768 2651) and Zeng Xianjian (2582 2009 1696), edited by responsible editor Huang Weilin (7806 0251 2651); "Direct Export by Inland Cities: Predicaments and Countermeasures"]

[Text] In the wake of in-depth development of the reform of the foreign trade system since 1988, many of

China's key inland cities conducted their export trade directly, so that their local foreign trade enterprises and production enterprises were pushed to the front of the international market, creating a "small-scale climate" of autonomous operation.

What is the situation in foreign trade development after the inland cities conducted their export trade directly? We come to the following conclusion by inspecting and analyzing the situation of foreign trade and production departments in Xiangfan City, Hubei: There are both opportunities and challenges, both difficulties and hopes, both advantages and contradictions, and both coexistence and competition. This "mighty sword" of direct export is not just a symbol of decentralization of authority concerning import and export. Rather, this symbolizes the start of self-struggle and pioneering work. Judging from the present situation, most of the direct export cities encounter competition in all directions, and face difficulties in every step taken.

First, the absence of the ideology of opening up and international competition, and the intermingled contradictions in every aspect hinder the pace of opening up.

"Direct export was the aspiration before it was realized, and it became hard to say when direct export is approved." After the practice of direct export was approved, quite a number of comrades felt that there was great pressure on them and they were worried. This was mainly because first, the practice of direct export was not chosen at the right time. It was adopted under the circumstances where China was promoting on a full scale, the practice of "assuming sole responsibility for one's profits and losses, and opening business operations to the market" in the foreign trade system. Besides, some fundamental problems concerning the closely related foreign trade system and the whole national economic system are yet to be solved, inland foreign trade enterprises have not fundamentally changed their economic results for the better, and the proportion of loss-incurred export commodities is increasing. In the past, this burden had always been on the shouldered by the state, which "granted subsidies to settle price difference, and assumed sole responsibility for profits and losses". Now, nobody is responsible for such economic losses since the grant of approval to conduct direct export by foreign trade and production enterprises in these cities. Second, they held that inland foreign trade departments had long been responsible for playing second fiddle in provision of goods but not for foreign trade, and these departments had gotten used to the work of fulfilling the provision of goods under the mandatory plans of provincial foreign trade departments. Now, they are worried that they may fail in fulfilling the export task since they have their own autonomy, their system of provision of goods has been replaced by that of import and export, and the present export situation is imperfect.

Second, the purchase price of export commodities soared, and the extent of losses is so serious that direct export cities find it impossible to solve them all.

Recently, because of the irrational pricing system in China, the price of raw and supplementary materials sharply increased, and so did the cost of export commodities, though the commodity price in the international market dropped. According to statistics recorded in the period from January to September 1988, the price of textiles in the international market dropped by average 15 percent, whereas the price of raw materials for textiles in the same period increased by about 30 percent. This shows a sharp price difference. As the purchase price of some export commodities is higher than the international market price, the balance of foreign exchange generated through export cannot meet the cost of export, so the extent of losses became more serious. Proceeding from the assessed cost of foreign exchange settlement of the foreign trade sector in Xiangfan City between January and September 1988, the actual cost for generating one U.S. dollar of foreign exchange was Renminbi 5.86 yuan on average. According to the regulations of the state, however, the exchange rate was 3.71 yuan for one U.S. dollar. Moreover, 0.8 yuan in subsidies is given and 0.22 yuan in taxes is drawn back for each U.S. dollar generated, so the total cost for generating one U.S. dollar is Renminbi 4.73 yuan, showing a difference of 1.13 yuan. According to calculations concerning the task of generating \$3.658 million foreign exchange by the whole foreign trade sector in Xiangfan City assigned by Hubei foreign economic relations and trade department, it is expected that total export losses to be suffered by Xiangfan City during the year will reach about 40 million yuan, which the local authorities can never absorb by their sole efforts. At present, it has been widely reflected by foreign trade departments in direct-export inland cities that their export losses are in proportion to the volume of purchased goods for export purposes, that is, the more they export, the greater losses they suffer.

Third, the source of supply is in a tense situation and strength is weak, so they jointly fall into the "trap" of vicious cycle development.

Shortage of supply is a major problem faced by the foreign trade business in the direct-export inland cities. One of the main reasons is that the inland areas failed in recent years to reap bumper harvests in agricultural sideline products, the traditional technology of industry was backward, the structure of industry was monotonous, and the economic results of industrial production were poor. Another reason for this is that the inland areas unfairly competed with the coastal areas in terms of foreign trade policies and economic conditions: While the coastal special economic zones purchased quality raw materials with high prices and foreign exchange, the direct-export inland cities were so weak that they could not bear the impact caused by the price difference competition. Rather, these inland cities could only follow the "law of value" and let a large amount of sources of goods drain away. For example, a large production enterprise making export commodities in Xiangfan City annually generated as much as \$20 million foreign

exchange through export of commodities, and only one-third of the commodities were purchased by the local foreign trade sector. Furthermore, as purchasing and consumption in the foreign trade sector had been centralized for years, the foreign trade departments in these inland cities possessed so little capital or insufficient fixed loans that they could not support their export activities by means of revolving exchange funds derived from imports, or meet the special requirements of capital and sources of goods, in order to promote large-scale import and export in foreign trade operation. They therefore could not form a competitive market economic mechanism, and fell into the "trap" of a vicious cycle of development.

**Fourth, the structure of export products is backward, its cost is high, and its comparative advantage is poor.**

While the structure of commodities exported by inland cities is monotonous and backward, and is mainly raw materials and primary products, their level of in-depth processing is poor, their proportion of sophisticated and advanced products are poor, and the amount of foreign exchange generated is low. According to a survey, more than 70 percent of commodities exported by inland cities are raw materials and unpolished processed products. The value of these raw materials and of extensively processed products may be increased by three times after they are processed with advanced techniques and technology by China's coastal cities and Hong Kong, Macao, Japan, and other countries. The cause of such a situation is: On one hand, China's industry and trade, agriculture and trade, as well as technology and trade have been isolated from each other for a long time, so that enterprises cannot directly enter into the international market, or study and develop new technology and new products in accordance with changes in the international market, and the structure of products became backward. On the other hand, foreign trade production enterprises need more time and capital to develop intensively processed products, so that the more stages of processing, the more losses an enterprise suffers. The enterprises were thus forced to maintain their status quo.

**Fifth, personnel engaging in foreign trade work are so poor in quality that they cannot cope with the international market environment.**

The move to allow direct export brings remarkable changes into the arena of activities, the target of social contacts, and the goal of operation by foreign trade personnel of inland cities. They are not familiar with the international market situation or environment of the import-export business, and lack experience in negotiating with foreign traders. Besides, they cannot handle foreign trade activities entirely on their own as their conditions are poor and they speak different dialects. Shortage of foreign trade specialists is another important reason that the inland cities did not develop the business of direct export smoothly.

In a nutshell, proceeding from the present economic situation of inland prefectures and cities, we hold that under the precondition of upholding the general direction of "opening up to do business by their own efforts and assuming sole responsibility for one's profits and losses" in our foreign trade, we should allow a readjustment and transitional stage for foreign trade departments in newly opened direct-trade cities. At this stage, foreign trade relations and trade departments at upper levels, as well as local governments, must adopt some supportive and protective measures, so that the inland prefectures and cities will promptly establish an operation structure integrating export with import, and industry with trade, and so that they will gradually carry out foreign and global trade after their self-development and perfection of their capability reach a certain level. However, if we ignore objective conditions and open up the cities to an excessive level, we will find it difficult to realize our goals or things will go contrary to our wishes.

In order to promptly open the cities up to do business on their own efforts, such cities should adopt the following feasible countermeasures:

**First, they should speed up the pace of establishing economic links to coastal regions and overseas, and build a network for information transmission and commodity marketing.**

The aim of building an international economic network is to control signals of readjustment through international economic activities concerning commodities, and to guide foreign trade activities in the inland cities in order to achieve flexibility and better economic results. The inland prefectures and cities should promptly transmit and transform information in the economic network as the support for their allocation of factors of production for export commodities. Besides, they should give full play to the role of "window" played by coastal regions, as well as the role of "springboard" played by Hong Kong and Macao. They should establish business connections as much as possible and in all directions and should develop international trade through multiple channels.

**Second, they should maintain business connections with the foreign trade departments of their provinces, and speed up the pace of reform concerning autonomous operation.**

Because the import-export business has long been handled by the foreign trade departments at the provincial level, import-export business at local levels always depended on these provincial foreign trade departments. Therefore, it is impossible to abolish overnight all such connections. Rather, there must be a process by which the close connections are gradually loosened. During the period in which both the new and old systems exist, the inland prefectures and cities should remain dependent on the provincial foreign trade departments in order to ensure the normal operation of foreign trading business

soon after the opening up. Matters concerning unified control of quotas, materials subject to foreign trade preferential treatment, and commodities yielding losses should be handled through joint operation with the provincial foreign trade companies. At the same time, the foreign trade departments in open prefectures and cities should send professionals of various trades to follow and learn trading practices. They should promptly master the skills of handling export-import business and become familiar with the export-import environment. The provincial foreign trade departments should, as they did before, give these prefectures and cities warm treatment and great support, to help them develop their capability to run their own foreign trade.

Third, they should speed up the pace of training professionals to handle foreign affairs, and form a competent team consisting of qualified economic personnel handling both domestic and foreign affairs.

Being a creative economic factor, qualified personnel are the key to attaining prosperous foreign trade. Foreign trade departments in the inland prefectures and cities should place priority on the work of expanding the competent team, improving the quality of personnel, and optimizing the structure of qualified personnel. They should adopt the approach of recruiting qualified personnel from, and sending others to, other places through varied means and channels. They should formulate a rational strategy of "making comprehensive development, breaking through in all aspects, and training qualified personnel by qualified personnel" for the development of qualified personnel, and quicken the pace of transforming intelligence into productive force. From now on, they should stress training personnel who can handle matters appropriately, and then gradually train in groups and by stages professionals competent in many aspects who can meet our needs. At the same time, they must establish institutions that offer consultative services and engage in studies of foreign trade, establish training bases, and cultivate groups of qualified personnel in a systematic, steady and standardized way.

Fourth, they should optimize the structure of export commodities, carry out intensive processing, and improve their economic results.

To optimize the structure of export commodities and to rationally allocate the factors of production are very important in the work of improving economic results of foreign trade in the inland cities. They must gradually improve the export proportion of knowledge- and technology-intensive products, and strengthen the technological transformation of traditional labor-intensive industries. All localities must take appropriate measures, and act according to the principle of comparative advantage, to select export-oriented industries; to expand the production scale and intensify the extent of processing of export commodities; and to develop industry-trade joint ventures engaging in the production and operation of

export commodities in order to form a unified structure of foreign trade organizations consisting of export commodity production, research, and sales divisions.

To loosen the foreign trade policy is an important guarantee for foreign trade and economic development of the inland prefectures and cities. For this reason, we particularly propose the following suggestions:

- (1) The export plans for 15 raw materials and products which are subject to the centralized allocation and operation of the state, should be reduced in quantity according to the actual situation. Furthermore, we should implement the principle that both the central organs and foreign trade enterprises in open prefectures and cities jointly run the export business.
- (2) We should rationalize as much as possible the pricing system in China, build a perfect mechanism for operation in both the domestic and overseas markets, and eliminate the abnormal phenomenon of "overestimating the foreign exchange price."
- (3) We should grant to the inland cities the same foreign trade preferential treatment as that enjoyed by coastal special economic zones, so that they may compete fairly with the coastal regions under equal conditions.
- (4) We should strengthen financial support to foreign trade development in the inland open prefectures and cities, and strengthen their capability of "making blood." We should introduce a compensation fund at a fixed export price differential ratio. We should "unfreeze" at an earlier time the frozen foreign exchange of foreign trade sectors in the open prefectures and cities.
- (5) At the same time, we should allocate a one-time fixed amount of foreign exchange revolving funds and development funds for commodity production bases to the open prefectures and cities.
- (6) We should reduce the rate of foreign exchange received by foreign trade sectors of the inland prefectures and cities (the actual rate of foreign exchange received is about 70 percent). The state should deduct the price increase index from the 3-year base figure originally determined for localities.
- (7) The Bank of China should appropriately and flexibly adjust the internal exchange settlement and adjustment price, particularly that portion of foreign exchange exceeding the base figure determined for foreign trade sectors of the open prefectures and cities, according to the situation in China.
- (8) We should promptly decentralize to the inland open prefectures and cities the authority of issuing licenses and quotas for export commodities, to realize the operation by opening up.

#### **Liaoning 'Aggressive' User of Foreign Government Loans**

40060367b Beijing GUOJI SHANGBAO in Chinese  
2 Mar 89 p 1

[Article by Hou Yu 0186 3768 and Chen Jiazhong 7115 1367 1813: "Liaoning Is Largest User of Foreign Government Loans; in 4 Years Contracts Concluded for 50 Projects Using Loans Totaling \$1.2 Billion"]

[Text] Liaoning has aggressively and successfully used loans from foreign governments to develop infrastructure construction and expedite the technological reform

of aid enterprises. In the last 4 years, the province has concluded 50 foreign contracts for loans amounting to \$1.2 billion. Of this, \$874 million was received in foreign government loans during the last year, a 3.3-fold increase over the previous 3 years, leading the entire nation in this respect. The 13 open municipalities in Liaoning also have made use of foreign loans.

Liaoning is China's base for older enterprises. For a long time, because of a lack of funds, energy resources, communications, transportation, and irrigation, progress was slow in building infrastructure, so many enterprises fell behind in their technical equipment, which affected the rate of economic growth. In recent years, the provincial government has stressed the use of foreign government loans in order to more widely attract foreign capital. They have set up specialized organizations, gone through various models, and publicized to every area and enterprise their recommendations about the nature of foreign government loans. They have adopted pragmatic conditions and policies and have mobilized localities and enterprises to use foreign government loans positively. To change Liaoning's backwardness in posts and telecommunications, such cities as Shenyang, Dalian, Fushun, and Benxi have all along made use of long-term, low-interest loans from foreign governments, such as Sweden, Spain, and Canada. They have brought in 200,000 program-controlled telephone switchboards, of which 100,000 are now in operation. Industrial enterprises in eastern Liaoning are concentrated, and there is a shortage of water in the cities there, so in the last year they used a \$130 million loan on favorable terms from the Japanese Government to construct at Benxi a large-scale reservoir with a storage capacity of 2.17 billion cubic meters. After this reservoir is built, it will basically resolve the problems surrounding industrial, agricultural, and residential water use in the cities of Anshan, Benxi, and Yingkou. In order to resolve the contradiction of Liaoning's lack of port capacity, in 1987 they used a Kuwaiti Government loan of \$17.5 million to construct at Jinzhou five new berths with an annual handling capacity of 3.75 million tons of goods and grains. Construction is now proceeding smoothly, and by the end of this year the port of Jinzhou will be fully operational.

Liaoning is abundant in natural resources, the chief base for raw and processed materials for all of China. In recent years, the entire province has been under a unified program to steer foreign loans toward focal points, pouring these loans into development of processing raw materials, for industry and the further processing of primary products. Last year, they used loans in the amount of \$430 million from four foreign governments, including Italy and France, to import the advanced technology and production installations of the 1980's. This was used to construct two 150,000-ton ethylene projects. A loan from the Spanish Government was used to import 110,000 tons of fatty alcohol for use in production. Loans from the governments of West Germany and France were used to construct two large-scale,

600,000-ton annual capacity synthetic ammonia and carbamide chemical fertilizer plants at Jinxi and Dalian, respectively. The emphasis is still on the technological reform of enterprises, developing what is needed for an economy that is oriented to the outside, using \$40 million in loans from foreign governments. From such nations as Great Britain and Switzerland, they imported a stream of textile manufacturing equipment, so that they were able to carry out a complete technological transformation of 14 essential textile enterprises throughout the province. This greatly upgraded these enterprises' technological level and manufacturing equipment, so that the quality of their products and their profits were considerably enhanced.

In the course of opening up to loans from foreign governments, Liaoning has completely stressed the work of finding practical means of repaying the loans, striving to drop the debt risk to the lowest index, to ensure that there is no harm done to the nation's credit. For projects that will rely on export commodities to repay loans, it is required that, before the project units apply for a loan, they must adopt industrial trade agreements that will ensure commodities for export. As for reselling the loan by means of commodities, it is required that at the same time a contract is signed for the importation of equipment, there also be a contract signed for commodity resale. As for large-scale, long-term projects involving the construction of infrastructure for energy, communications, hydropower, etc., relevant departments of provincial government organizations are operating under a unified strategy which stipulates specific measures for loan repayment. During the past 4 years, the province-wide adoption of using commodities for debt repayment constitutes 88 percent of total foreign government loans, and there now are 16 projects that have begun to repay their loans during this period.

#### Shanghai Expands Machinery, Electronics Exports

40000104a Shanghai JIEFANG RIBAO in Chinese  
26 Mar 89 p 1

[Article by reporter Zhang Zhiyuan 1728 1807 6678 "The Municipality Improves the Mix of Export Products—Shanghai Strives To Expand Machinery, Electronics Exports—Export Goods Delivered for Export This Year Worth 2.7 Billion Yuan, Comprising One-Quarter of the Municipality's Total Export Procurement"]

[Text] Shanghai's machinery and electronics exports will reach a new milestone this year. Municipal government leaders told the leading cadres of industrial bureaus, export bases, and enterprises with expanded foreign trade autonomy that they must understand the strategic importance of expanding machinery and electronics exports in helping to improve Shanghai's mix of export goods and urged them to take full advantage of the present opportunities to increase export and earn more foreign exchange.

As much as 2.7 billion yuan worth of mechanical and electronic products have been delivered for export. This amounts to one-quarter of Shanghai's total export procurements. This year's planned export delivery will be worth 2.309 billion yuan, joint industrial and commercial figure will be 2.712 billion yuan, foreign exchange earnings from exports is expected to reach \$624 million, the work quota is set at \$810 million, 5 percent more than last year's actual figure. This year, Shanghai has stressed the export of the following nine categories of mechanical and electronic products: machine tools, electrical machinery, bearings, standard tools, bicycles, sewing machines, televisions, electrical illuminants, and household locks. Planned delivery of these products is expected to top 1.191 billion yuan, and the work quota has been set at 1.221 billion yuan, 19.7 percent higher than last year, comprising 52.8 percent of Shanghai's total planned delivery of all mechanical and electronic products for export.

To consolidate and strengthen the machinery and electronics export system, Shanghai has set up evaluation standards to strengthen the management of export enterprises. For example, it is stipulated that export base enterprises must export more than \$1 million's worth of goods, and exports must make up more than 30 percent of the total output; enterprises with expanded export autonomy must produce at least \$1 million's worth of export goods, and exports must make up 10 percent or more of the total production. Last year, 72 of the export base enterprises and 20 of enterprises with expanded export autonomy in Shanghai failed to meet those quotas, and if they fail to meet their quotas again this year, their status will be revoked. This year, 35 export base enterprises are designated to import from overseas selective prototype machines to be used to improve the design, artistry, style, and packaging of Shanghai's export goods and turn them into up-scale products. At the same time, mid- to long-term programs for mechanical and electronic products are being formulated to establish and perfect the three networks (information, sales, and service) of China's mechanical and electronic products in the international market. We want to seize the opportunity while well-developed nations are transferring the production of traditional goods to developing countries and while we continue to expand our market share of traditional products in Hong Kong, Southeast Asia, and other Third World countries, we want to expand our market in North America and Western Europe in a planned and systematic way.

Yesterday, at the Conference on Shanghai's Machinery and Electronics Export Tasks, Deputy Mayor Ciu Chuanxun (7357 0278 6064) said, "We have pinned our hopes on machinery and electronics exports to guarantee the success of Shanghai's export tasks and expect them to bear the bulk of the burden. Their growth rate should exceed the 10-percent average growth rate in Shanghai." He urged the cadres and workers in Shanghai's machinery and electronics industries to set a goal to struggle and make mechanical and electronic products Shanghai's

number-one export products and help change Shanghai's export mix, which has always been dominated by light and textile industries, hoping that this will help Shanghai's foreign trade grow at a steady pace. Ciu Chuanxun also urged the audience to pay special attention to forging even stronger ties between industry and commerce as they develop the export of machinery and electronics vigorously. He said, "Good coordination between industry and commerce is the key to increasing exports."

Yesterday, Ciu Chuanxun and other comrades also awarded citations to 29 advanced units among the machinery and electronics exporter. Among the recipients, 20 enterprises, including the Standard Tool Company, the Wire and Cable (Group) Company, and the Mini-Bearing Plant, are advanced units cited by the State Council's Machinery and Electronics Exports Department and Ministry of Foreign Economic Relations and Trade, and nine enterprises, including the Shanghai Machine Tool Plant and the Yuejin Electrical Machinery Plant, are advanced units cited by Shanghai Municipality.

#### Shanghai Endorses Agent System To Expand Foreign Trade

4006030d Shanghai JIEFANG RIBAO in Chinese  
30 Mar 89 p 1

[Article: "Zhu Rongji [4281 6954 1015] Suggests a Way for Shanghai To Develop Its Economy—Broadly Promote the Agent System To Expand Export—Municipal Government Convenes the Textile Export Industry and Commerce Bilateral Contracting Mobilization Meeting"]

[Text] Shanghai's textile industry took the lead in broadly promoting the export agent system, implementing a industry-commerce bilateral contract system. So far, 288 enterprises and foreign trade companies in the cotton textile, knitting, garment, and other industries have entered into bilateral contract export agent agreements.

Yesterday, Shanghai's municipal government convened a "Shanghai Textile Export Industry and Commerce Bilateral Contracting Mobilization Meeting" and urged industry and commerce to unify their thinking, arouse their spirit, and find a way to increase Shanghai's exports via the agent system. In addition to the textile industry, Shanghai also plans to broadly promote the export agent system which calls for industry and commerce bilateral contracting.

Since 1985, Shanghai Municipality has experimented with the agent system in enterprises such as the Jiefeng Cotton Textile Mill, the No 4 Cotton Mill, the No 17 Bleach and Dye Plant, and the No 3 Small and Mini-Bearing Plant, and has accumulated some experience. With that, and after a period of deliberation and preparation, the municipal government feels that the present

situation necessitates and warrants taking a bigger step with the agent system to give impetus to the thorough reform of the foreign trade system.

In explaining why the textile industry should take the lead in promoting the export agent system, Deputy Mayor Gu Chuanxun (7357 0278 6064) said Shanghai's textile exports make up 40 percent of the municipality's total exports, the textile industry generates the highest foreign exchange income in Shanghai, and promoting the agent system in the textile industry has an overall advantage. Since last year, the textile industry, and even all industries in Shanghai, have run into difficulties; there has been a serious shortage of planned raw and processed materials, energy and funds have been tight as well, and Shanghai has had to use a substantial portion of its foreign exchange to import raw and processed materials. For this reason, Shanghai must increase exports and earn more foreign exchange so that it can deal with the difficult economic situation more effectively. In promoting the agent system, both industry and commerce must show unity if we are to succeed in earning more foreign exchange.

In discussing how to implement the integration of industry and commerce and the bilateral contract system, Deputy Mayor Huang Ju (7806 5468) said that he hopes both industry and commerce will commit themselves in form and spirit, that they will respect each other, defer to each other, understand each other, help each other, and work with each other. He also urged the banks, the trade inspections, and customs departments to give their full support to the contract system and contribute their share to Shanghai's promotion of the agent system.

Mayor Zhu Rongji made a special trip back from Beijing to attend yesterday's meeting. In his speech, he pointed out that integration of industry and commerce, bilateral contracting, and widespread promotion of the export agent system are keys to the fate of Shanghai's economic development. If Shanghai is to get out of the present predicament, 1) it must adjust the industrial organization, first by improving the industrial product mix, and 2) it must rely on the integration of industry and commerce, the bilateral contracting system, and promotion of the agent system. Today, conditions are ripe for launching the bilateral contract system. The important thing is industry and commerce must seek unity in thinking. Manufacturers must overcome the tendency to think that the agent system "dumps the burden" on enterprises, and the foreign trade departments must overcome their "big deal" mentality. Industry and commerce are in the same boat and should help each other, understand and defer to each other, and through the agent system, they can put more products on the international market.

Mayor Zhu Rongji emphasized that to implement the agent system properly, the municipality must give it encouragement via policy and give it strong leadership via better organization. All industrial bureaus must

actively promote bilateral contracting and do their best with in pilot projects. All comprehensive departments must support the promotion of the bilateral contract system and work together to invigorate Shanghai.

Shen Beizhang (3486 5926 4545), director of Shanghai's Committee of Foreign Economic Relations and Trade, and Mei Shouchun (2734 1108 2797), director of Shanghai's Textile Bureau, spoke on behalf of industry and commerce, respectively. More than 1,400 people from Shanghai's foreign trade companies and industrial enterprises attended the meeting.

## PRC MEDIA ON FOREIGN ECONOMIES

### Aspects of Western Privatization Provide 'Useful' Lesson

40060708 Tianjin NANKAI JINGJI YANJIU [NANKAI ECONOMIC JOURNAL] in Chinese No 1, Feb 89 pp 58-62, 74

[Article by Shi Qinglong 2457 3237 7893, lecturer in the Department of Social Sciences, College of Business, Hangzhou University: "A Simple Discussion of Western Nations' Privatization of Nationalized Enterprises and Its Significance as a Lesson"]

[Excerpt] [Passage omitted] The Function of Western Privatization and Its Significance as a Lesson for China.

At present, some Western nations are going through a reform of privatizing some state-owned enterprises, bypassing arguments with certain political parties, and have obtained definite results. China's reform of its state-owned enterprises is not traveling the Western road of privatization, still, the Western experience with privatization has some significance from which China can learn.

#### A. The function of privatizing state-owned enterprises.

First, privatization of state-owned enterprises casts off direct interference by the state, expands the power of enterprises to act on their own initiative, and enhances their efficiency rate. One of the drawbacks of state ownership of enterprises is its excessive concentration of authority, with enterprises lacking the ability to respond quickly to the demands of the marketplace since they do not have the power to act on their own. At the same time, state-owned enterprises in general still continue the "common pot" phenomenon, which is a deterrent to arousing people's enthusiasm for manufacturing and management. After privatization, state control shifts from direct to indirect. This is beneficial to the state's concentrating its energies on strengthening enterprises' macroeconomic management and arousing their enthusiasm for self-management, smashing the "common pot," and raising the enterprises' efficiency rate. For example, since the privatization of the British Radio Corporation in 1981, its volume of business has tripled,

and its profits have nearly quadrupled. Italy's (7Vili) Corporation (with 300,000 employees) went from a 850 million lira per capita volume of sales in 1983 to 989 million lira in 1984, etc. (UK *Auroran Current*, June 1985 Supplement, p 36.) This indicates that state-owned enterprises were definitely improved by privatization.

Second, privatization of state-owned enterprises improves enterprises' competitive ability. Competition is the quintessence of modern enterprise. It can further enterprises' supercession of the old by the new. Privatizing state-owned enterprises alters the conditions under which they exist, forcing them to continually improve their technology and management, raise their efficiency rate, lower their prices, and strengthen their ability to compete. At the same time, private capital is invested in quantity, which helps enterprises secure newer equipment and technology, and thereby improve the advancement of enterprise competitiveness.

Third, privatization permits government to decrease its subsidies by increasing the amount of revenue. For example, the British Government put the British Gas Company up for sale, and within 3 years took in 8 billion pounds sterling in income, and selling the water supply system brought in another 9 billion pounds. (UK *The Economist*, 5 April 1986, p 62.) At the same time, the government not only stopped losing its subsidies, it was able to increase its income from taxes.

Finally, privatizing industrial enterprises that are the foundation of the system helps the state shift its interference focus to new types of industries, advancing the development of these newer industries and the technological transformation of more traditional industries.

It is clear that the reform of privatizing state-owned enterprises, can definitely be useful in advancing development of production forces. Naturally, it is imperfect, with some negative elements. For example, one cannot be certain that privatizing enterprises will result in increased societal benefits, because these enterprises are of necessity controlled by the profit principle, i.e., great benefits bring an all-out effort, small benefits bring small effort, and no benefits bring no effort. Society's unemployment phenomenon can increase, because privatized enterprises must also overcome the state-owned enterprises' phenomenon of overstaffing. This is especially the case during economic slumps, when enterprises often will make large-scale personnel retrenchments, which increase unemployment and thereby affect the stability of the social order. Naturally, this is by no means excluded during times of prosperity, which can increase the number of employment agencies. After privatization, there must be an increase in the phenomena which produce an anarchic state of affairs in society, thereby increasing the eruption of economic crises. Therefore, privatization also is not a prescription that can cure a hundred ills. Its function is two-layered.

#### B. Draw lessons from Western experience to deepen China's reform of state-owned enterprises.

China is a socialist nation centered on the system of public ownership, and can by no means travel the Western road of privatizing state-owned enterprises. However, we must carry out comprehensive, deep reforms, seriously implementing these (enterprise laws). We can learn from the Western nations' privatization of their state-owned enterprises, integrating this with our specific national conditions. Reform of China's state-owned enterprises definitely cannot be by "one cut of the knife," but can be deepened in the following several forms:

First, insist on state management of certain state-owned enterprises, namely, those nationalized medium- and large-sized enterprises which are related to our economic lifeblood and have frontline significance. Among these are included subsidized enterprises, military industry enterprises, basic facilities departments, partial processing industrial enterprises, and R&D organizations, etc., should continue to carry out the form of "what the state owns, the state manages." This is an objective requirement of modern production forces, and is suited to the needs of national completeness. Enterprises in this model can then implement various forms of the production responsibility system to strengthen their vitality.

Second, implement a stock system. In addition to the above-mentioned "state-owned and -managed" enterprises, there are other large and medium-sized enterprises that could progressively adopt a form of the stock system. Implement state shares, enterprise shares and workers' shares. In allocating shares, the state's and the enterprise's should be equal, and greater than the workers', with a preponderance going to the public. Workers' shares will be chiefly in their own enterprise. We can adopt the methods of Western privatization, implementing tax-exempt shares or compensatory shares, to encourage even more workers to come forward and purchase them. By no means should we set up the method of forcing apportion service, for this can bring out side effects. Stock enterprises' group leaders will implement this according to common stock system principles. In addition, they should recruit a certain number of worker representatives to participate in management. The advantages of implementing a stock system are that it clarifies general, vague property rights relationships, and furthers the rationalization of enterprise mechanisms and actions. At the same time, it also helps the state's overall control by not changing the nature of socialist public ownership. It can also arouse the enthusiasm of the enterprise and its workers, and can attract a certain amount of society's floating capital and consumption funds, converting them into production funds to advance the development of production, increase supplies in general, control needs in general, and curb inflation and price rises. However, implementation of a

Stock system must be coordinated with the establishment and development of a stock market, in order to benefit the transformation of stock rights, so that the results will be even better.

Again, perfect the contract system. Promptly turn some smaller state-managed enterprises over to collective or individual worker management. Select a model which will attract contractors to come forward and submit bids, negotiate, and sign contracts to sell management rights within a specified period of time. Ownership rights to the enterprise will still belong to the state. Implementation of a contract system will benefit import competition mechanisms and will help acquire experience in rural enterprises and individual management. It will improve labor solidarity, raise the level of management, and further the development of production forces. This form of contract system is most appropriate for small-scale enterprises. Because the contractor requires a mortgage on the property, many people have this type of contract condition. For large-scale enterprises, it is unlikely to help raise the management level of the enterprise or be beneficial to its ownership, since people commonly do not possess property that can be mortgaged. For these reasons implementation of the contract system is most appropriate for the state-run, small-scale enterprise.

Finally, progressively bring about privatization of public housing and put some of the state-owned, small-scale enterprises' property rights up for sale. In the entire nation there are 2.4 billion square meters of public housing; after privatization is accomplished, a massive amount of funds can be recovered within a few years. At the same time, planned, guided sales of some of the property rights of state-owned, small-scale enterprises can kill two birds with one stone; that is, it can rapidly improve enterprise management mechanisms, arouse their vitality, and further the development of production, while also enabling the state to take in enormous sums in revenue. This is of major, genuine significance for changing the structure of consumption, adjusting the industrial structure, transforming traditional enterprises, developing new forms of technology, controlling inflation, while smoothly implementing a rise in wages and reform of prices.

Naturally, after implementing the state-owned enterprise reforms listed above, the state must still strengthen its macroeconomic management. Drawing on Western experience, the state should have definite national plans (with a leading plan at the center). At the same time, it should use economic measures (including drafting, perfecting, and implementing policies on public and private financial investment, taxation, etc.) and legal measures (such as implementing enterprise laws, bankruptcy laws, etc.), as well as regulate them. Besides these, there must also be certain measures for appropriate administrative intervention, which is essential if there are to be ideal results. The regulatory measures listed above must be comprehensively applied; there absolutely cannot be mutual antagonisms, haggling over trifles, and canceling

out each other's functions, for if these exist, there can be no clear-cut results. Looking at China's experiences of recent years shows us that it is also unsatisfactory to completely abolish national planning and certain necessary administrative interventions. This is especially the case at the time of changeover from an old to a new system. Naturally, there must also be no turning back to the old system of management; rather, there must be deepening reforms, moving ahead.

To sum up, China is a socialist nation, and its enterprise reforms will not follow the Western road of privatization. This is an absolute certainty. But its methods are something we can learn from in deepening China's current economic reforms. To make China's state-owned enterprises more vital, and raise the efficiency rates of production and management, China's system of state-owned enterprises should not be static and monolithic over a long period of time. Rather, we should choose a flexible variety of models, for only in that way can we further the more rapid development of China's forces of production. For only in this way can we bring the superiority of China's socialist economic system to its fullest potential.

## AGRICULTURE

**Issues in Transfer of Surplus Agricultural Labor**  
40060399 Beijing ZHONGGUO NONGCUN JINGJI  
[CHINESE RURAL ECONOMY] in Chinese  
No 2, 21 Feb 89 pp 38-41

[Article by Yu Dechang 4049 1795 2490 of the Rural Development Institute of the Chinese Academy of Social Sciences: "A Preliminary Discussion of Surplus Agricultural Labor and Its Transfer Pattern"]

[Text] I. The Objective Inevitability and Necessity of the Transfer of Surplus Agricultural Labor

A. The disparity of relative profit is the subjective cause of agricultural labor transfer. Under the conditions of a commodity economy, it is very normal for people to stress relative profits. Many facts have proved that the relative profit of agriculture is low in China.

**Table of Comparison of Per Capita Net Income Among New Economic Integrated Bodies**

|                           | Per capita net income (yuan) | Planning, compared with other industries (%) |
|---------------------------|------------------------------|--|
| Farming                   | 980.07                       | 100  |
| Forestry                  | 629.50                       | 64.2   |
| Animal husbandry          | 1,393.42                     | 138.29                                       |
| Fishery                   | 1,282.05                     | 130.81                                       |
| Industry                  | 1,329.07                     | 133.61                                       |
| Construction              | 1,173.18                     | 119.70                                       |
| Transportation            | 2,332.83                     | 238.03                                       |
| Commerce, food, & service | 1,417.31                     | 144.63                                       |
| Others                    | 1,134.79                     | 115.79                                       |

Source of information: The 1985 Statistical Yearbook of Rural Areas of China

This table shows that the per capita net income of farming is lower than all lines of work except for forestry. Low relative profit of grain production is also a common phenomenon within the farming industry. According to a sample survey of Wuzhou City in Guangxi, in 1983 the average profit of rice per work day was 0.24 yuan, sugar cane was 1.68 yuan, fishery was 7.44 yuan, vegetables was 2.27 yuan, and oranges, 1.54 yuan. If the average daily profit of rice were 1, sugar cane would be 15.3, fishery, 31; vegetables, 9.5, and oranges, 6.4. Since the relative profit of agricultural production is lower than other lines of work, agricultural labor has been transferred to nonagricultural professions.

B. The labor demand of nonagricultural professions is the external pulling force of agricultural labor transfer. Due to scientific and technological progress and growing specialization of human society, new departments and industries continue to emerge. Under general conditions, because the wage level of surplus agricultural labor (which is determined by the level of agricultural income) is low, new industries and departments are willing to absorb surplus agricultural labor to make extra income. Therefore, as long as the wage of new departments and industries is slightly higher than the level of agricultural income, surplus agricultural labor would continue to flow out.

C. Farmers seek self-development opportunities and conditions. Under a natural economy, farmers pursued a self-sufficient idyllic life and their goal was to get enough to eat and wear. Under a commodity economy, the farmers' horizons have been broadened and they now pursue profit growth and self-development. Farmers, especially educated young ones, want to pursue a new style of living and production. Because of this, young farmers comprise the bulk of agricultural labor transfer. According to a survey of 93 villages in 11 provinces and autonomous regions across the country, in 1986 young farmers between the ages of 18 and 35 accounted for 80.1 percent of labor transferred to other areas and 53.5 percent of labor transferred from agriculture to other professions in the same area. This shows that the majority of labor transfer is educated young farmers. These farmers have some education, are less conservative, more likely to accept modern science and technology, and better suited to the needs of nonagricultural professions.

China has a dual economic structure characterized by the coexistence of modern urban industry and traditional rural agriculture. The drawback of this structure is that modern industry is built on traditional agriculture. Because of this, the development of national economy is extremely weak. This can be seen in that: 1) Economic development is unstable and subject to constant and violent fluctuations. 2) Economic efficiency is poor. High speed and low efficiency are common failings of this structure. 3) Urban and rural developments are uneven. Prosperous cities and backward countryside form a sharp contrast. Because of this, changing the dual

economic structure has become an extremely urgent task of China. We need to take many practical and effective steps to change the dual economic structure. The key is to change the backwardness of agriculture, equip agriculture with new science and technology, increase agricultural labor productivity, and realize agricultural modernization. All this relies on the transfer of agricultural labor. Only when surplus agricultural labor is transferred in a timely manner can we equip agriculture with new science and technology, increase agricultural labor productivity, and realize agricultural modernization. Otherwise, a large amount of surplus agricultural labor would be trapped in the agricultural department, making it impossible to use modern agricultural technology and equipment. We would have to rely on hand tools, making it impossible to increase production efficiency and improve farmers' living standards. The success or failure of China's socialist construction is hinged on the success or failure of agricultural construction. The transfer of surplus agricultural labor is not only an economic issue but also a political one. If it is not handled properly, disassociated young farmers who could not find proper employment would loaf about in society and become a very serious unstable factor of social order.

## II. The Characteristics of China's Surplus Agricultural Labor and Its Transfer

### A. The Characteristics of the Surplus of Agricultural Labor

1. Latency. The surplus of agricultural labor is in a latent form. This is because every Chinese farmer has a small plot of farmland. As population increases, each farmer's plot becomes smaller. But no matter how small the land is, every agricultural laborer has work to do during the farming season. Under current conditions, everyone can keep body and soul together and continue to live. Therefore, surplus Chinese agricultural laborers are not forced to be separated from agricultural production because they have lost the means of agricultural production. They need to get out of agricultural production because they do not have enough means of production. All this labor is hidden in agricultural production before it is transferred. Inconsistent agricultural production and labor schedules are the internal cause of latent surplus agricultural labor. During the busy farming season, a large amount of agricultural labor may be employed in order to accomplish work in a timely manner. During the farmland management period, a small amount of labor will be sufficient. During winter, especially in northern China, agricultural labor is basically idled.

2. Variability. The variability of agricultural labor is expressed mainly as the great flexibility of labor demand of agriculture. Because of the influence of various factors, agricultural demand for labor is not a constant, but is variable. These factors include mainly a) The composition of crops. Different crops demand different amounts of labor. For instance, planting 1 mu of wheat needs 12 workdays, rice needs 18, and cotton needs 30.

Therefore, a different composition of crops means a great change in the demand for agricultural labor. b) Geographical position. The labor demand of the same crop may vary due to the difference of geographical position. Farmland near villages requires less labor because of short travel time. Farmland farther away from villages requires more labor because of longer travel time. c) Weather conditions. If weather cooperates, the same crop on the same land will require less labor (because some fieldwork, such as irrigation, draining waterlogged fields, and pest control, may be reduced). If weather is disastrous, it will need more labor. d) Soil condition. Rich soil needs less labor and poor soil needs more. e) Production tools. Using agricultural machinery requires less labor and using hand tools needs more. f) Management style. Extensive cultivation needs less labor and precision farming needs more.

Due to the following factors, labor supply to agriculture is not a constant, but is variable: a) If laborers can provide high-quality labor, a small number of them would satisfy agricultural need. If labor quality is low, the supply has to increase. Agricultural labor supply and quality form an inverse ratio. b) If labor resources are abundant, the supply is high; otherwise, it is low. c) If the participation rate of nonagricultural laborers (the rate of nonagricultural laborers participating in agricultural production) is high, the supply of the agricultural productive force would be small. If the participation rate is low, agricultural labor supply would be high.

Therefore, the surplus of agricultural labor is a relative, not absolute, amount. In our study, we must pay attention to this characteristic, give full consideration to the flexibility of its demand and supply, and leave some room to maneuver.

### B. The Characteristics of the Process of Transfer of Surplus Agricultural Labor

1. Progressiveness. This refers to the characteristic of the process of transfer of surplus agricultural labor. a) As far as area is concerned, laborers gradually move from rural to urban areas, nearby at first, then to distant areas. Judged from the actual conditions of China's rural areas, laborers first leave the soil but not the village—local transfer. Then they leave the village but do not go to the city—between-village transfer. And then they leave the rural area and go to the city. This forms a progressive process from local transfer to leaving the village and then to going into the city. b) As far as profession is concerned, under general conditions, surplus agricultural labor is first transferred within agriculture—namely, from farming in the narrow sense, to farming in the broad sense. Then it will be transferred to agriculture in the broad sense (forestry, animal husbandry, and fishery). And then it will be transferred to nonagricultural industries—namely, from agriculture to nonagricultural work. As far as transfer time is concerned, seasonal transfers precede year-round transfers.

The progressive characteristic is determined by the economic development level of rural areas and the process of farmers' transfer from natural to social persons. During the initial period of transfer, the level of productive force is relatively low in rural areas, and labor tools are relatively simple. Because of this, farmers mainly engage in handicraft-type nonagricultural enterprises by making use of and processing local materials. During this period, farmers are still under the influence of natural economy and in the state of natural persons, so the transfer of surplus agricultural labor is mostly local—namely what we usually called leaving the soil but not the village and entering the factory but not the city. When the level of rural productive force rises further, especially when rural industry develops to a certain level, there will be a clustering effect and industrial space layout will inevitably become more concentrated. At the same time, farmers' awareness of commodity and self-development will increase and the tendency to leave the village and enter the city will appear in the transfer of agricultural labor.

2. Stratification. This refers to the characteristic of the structure of agricultural labor transfer. The stratification of agricultural labor is demonstrated mainly in three areas: one is age, another is profession, and a third is cultural level. Age strata are juvenile, youth, middle age, and old age. Professional strata are farming, forestry, animal husbandry, and fishery. Cultural strata are four: higher education (above college level), secondary education (middle and high school level), elementary education (grade school level), and illiterate and semi-illiterate. Different strata are linked to different orientation, scale, and speed of labor transfer because different strata can meet different demands. For instance, laborers of higher cultural levels are generally transferred to technology-intensive industries, whereas laborers of lower cultural levels are generally transferred to labor-intensive industries. Younger and stronger laborers are transferred mostly to different areas whereas middle-aged and older laborers are engaged mostly in local transfer.

### III. The Tendency of Change of Agricultural Labor

The tendency of change of agricultural labor refers to the general orientation of change of agricultural labor within a given period. Understanding the tendency of change of agricultural labor can help us better understand agricultural labor surplus and its transfer pattern. The change of China's agricultural labor has occurred in the dual economic environment when the natural economy is being transferred to the commodity economy, traditional agriculture to modern agriculture, and the single-sector agricultural structure to the multisector agricultural structure. Because of this, it has the following tendencies:

A. The tendency of weakening agricultural labor. Many facts have proved that during the transfer of surplus agricultural labor, the quality of agricultural labor has declined. Main expressions of this include the aging of laborers engaged in agricultural production, the decline

In the educational level, and the increase of the number of female laborers. An investigation shows that supplementary labor, referring to people who are not in the working age, accounts for 40 percent of agricultural labor in Laohuying Village, Liuquan Township in Hebei Province. It is 33 percent in Xinglongpo Village, Fengshuigou Township, Yuanbaoshan District, Chifeng City in Inner Mongolia.

The tendency of weakening agricultural labor also exists universally in other countries. It is reported that in Japan 80 to 90 percent of agricultural labor transfers are youths under the age of 35; 88.5 percent of the population emigrated from Novgorod of the Soviet Union are youths under the age of 30.

Facts have proved that the weakening of agricultural labor exists universally in China and other countries. One of the reasons is that, since the level of productive forces has been increased, some strenuous manual labor has been replaced by agricultural machinery and supplementary agricultural labor is now sufficient. After machinery replaced men in major fieldwork requiring relatively strenuous labor, such as plowing, sowing, irrigating, draining, raking, harvesting, field transport, and threshing, the intensity of agricultural labor has been reduced. Minor work can therefore be accomplished by supplementary labor. Another reason is that, because of the low relative profits of agricultural production, stronger rural labor has transferred from agriculture to other lines of work in an effort to seek higher profits. According to an investigation of 93 villages in 11 provinces and autonomous regions across the country, of all labor transfer from agriculture to nonagricultural professions, laborers between the ages of 18 and 35 account for 60 percent, male laborers account for about 70 percent, educated laborers account for about 80 percent. This explains that the weakening of agricultural labor is a normal phenomenon. The current problem is that many localities do not have a complete set of agricultural machines and cannot replace weakening labor with machines in a timely manner, causing some side effects which have adversely affected to a certain extent the stable growth of agricultural production. A solution to this problem is to promote the development and popularization of suitable farm machinery and improve the agricultural production contract system to make it favorable to the use of farm machinery.

**B. The tendency of moonlighting of agricultural labor.** The moonlighting phenomenon of rural areas is another widespread tendency in China. According to the investigation of 93 villages in 11 provinces and autonomous regions across the country, 41,889, or 59.7 percent of 70,216 people who changed professions in 1986, held two jobs at the same time. This refers to laborers, namely individuals who engaged in both agricultural and nonagricultural production and management activities. As far as peasant households are concerned, the percentage is

even higher. More than 90 percent of peasant households in Qianchun and Nanhuan Villages in Yuangbaoshan District, Chifeng City in Inner Mongolia held more than one job.

The moonlighting tendency of rural areas is caused by a combination of complicated social and economic factors. First is the land system. During industrialization in countries and areas where land is scattered and capitalist agriculture is less developed, farmers do not easily give up their land and engage in nonagricultural professions. This is because agriculture is the source of their food and clothes, and farmers rely on it for the most basic means of subsistence. Agriculture is also the reservoir and regulator of rural labor. Should they fail in other lines of work, they can retreat to agriculture, rest up, make adjustments, and wait for another opportunity. Therefore, as long as farmers own a small plot of land, moonlighting will be inevitable. Second is the tolerance level of agriculture. In the operation of a commodity economy, scattered agriculture has a higher level of tolerance because moonlighting can divide the risks of the market. Third is inconsistent time schedules for agricultural production and labor, and intervals between different cycles. This has enabled agricultural laborers to engage in nonagricultural activities.

Moonlighting has impeded the growth of commodity agriculture and contributed to the longtime coexistence of self-sufficient, commodity economies in the rural economy. Under the condition of full supply of agricultural labor, moonlighting is not conducive to scientific and technological progress. It can slow the increase in agricultural labor productivity and is not conducive to enhancing the foundation status of agriculture. However, moonlighting can divide the risks of market and competition, bear losses caused by poor management, reduce unstable factors of society, obviate major impacts in the change of industrial structure, and help coordinate development.

**C. The tendency of centralization.** Centralization is a universal tendency in industrial society. Along with the progress of rural industrialization, the centralization of rural labor will become inevitable. It can help save energy, land, and financial resources, facilitate the transmission of information and scientific and technological exchange, and increase economic returns. According to an investigation of 93 villages in 11 provinces and autonomous regions, of all labor transfer in 1986, rural areas accounted for 48.8 percent, rural towns accounted for 5.2 percent, county seats and organic towns accounted for 12.1 percent, medium-sized and small cities accounted for 29.4 percent, large cities accounted for 3.8 percent, and foreign countries accounted for 0.6 percent. As far as areas are concerned, the ratio of laborers entering cities is higher in economically developed areas. For instance, it was 79.2 percent in Shanghai, 75.4 percent in Zhejiang, and 74.8 percent in Fujian. The ratio of laborers entering cities is lower in economically underdeveloped areas. For instance, it was only 17.4 percent in Qinghai. See the following table for details.

The Structure of Rural Labor Relocation in 1986 (%)

|         | Other Villages | Rural Towns | County Seats & Organic Towns | Small & Medium-Size Cities | Large Cities | Foreign Countries |
|---------|----------------|-------------|------------------------------|----------------------------|--------------|-------------------|
| Eastern | 21.7           | 6.1         | 9.8                          | 53.9                       | 7.0          | 1.5               |
| Central | 38.6           | 12.4        | 34.2                         | 11.0                       | 3.8          | —                 |
| Western | 74.3           | 3.6         | 11.2                         | 9.8                        | 0.9          | —                 |

Note:

1. Eastern areas include Shanghai, Jiangsu, Zhejiang, and Fujian.
2. Central areas include Hebei, Inner Mongolia, Shanxi, and Heilongjiang.
3. Western areas include Guangxi, Ningxia, and Qinghai.

We can see two trends in this table. One is that the ratio of labor transfer to urban areas is higher in economically better developed eastern areas than in economically less developed western areas; the ratio gradually declines from east to west. The other is that the major recipient of surplus agricultural labor is mid-sized and small cities and towns. In other words, surplus agricultural labor is relatively concentrated in these areas. This is a characteristic of China's rural labor transfer.

#### IV. The Basic Principles of Agricultural Labor Transfer

To guarantee smooth transfer of surplus agricultural labor, we must abide by the following principles:

**A. The principle of coordination.** Different elements of productive forces form an organic entity of a definite form and ratio. Along with scientific and technological progress, these elements will change their ratios and form a new organic entity. Otherwise, if the ratio and the form of integration are irrational, the organic entity will not be formed, and the development of productive forces will be impeded. For instance, the amount of natural agricultural resources owned by each person in China is limited, and the distribution of agricultural labor is irrational, causing agricultural labor productivity to decline and making it impossible to bring into full play the enthusiasm of agricultural laborers. The uneven distribution of laborers between the tertiary industry and the primary and secondary industries in rural areas has caused such drawbacks as low social standards and slow progress in the popularization of scientific and technological results. It is thus clear that coordination is a universal principle of economic movement. We also have to abide by this principle in the utilization and transfer of surplus agricultural labor. The key is to find the rational proportion between the labor employment structure and the economic development of different sectors, such as the ratio between agricultural labor productivity and nonagricultural labor increase and the rational distribution of labor between secondary and tertiary industries.

The increase in agricultural labor productivity is the precondition for increase in nonagricultural labor. This is because: 1) under normal conditions, only an increase in agricultural labor productivity can produce new surplus agricultural labor; 2) only when agricultural labor

productivity is raised can we guarantee the demand for farm and sideline products generated by increased non-agricultural labor. Because of this, agricultural labor productivity and nonagricultural labor are in direct proportion to each other.

Labor is not distributed arbitrarily in nonagricultural industries. It, too, is organized in a definite proportion. An abnormal employment structure in secondary and tertiary industries and the disproportion of secondary and tertiary industries can also impede normal development of productive forces. In China the development of tertiary industries lags behind secondary industries. Communications, transportation, post, telecommunications, culture, and education, in particular, are incompatible with development of the national economy. In addition to lack of funds in these departments, a main cause is irrational labor input. Because of this, we should define a rational labor employment structure in accordance with different conditions.

To define a rational proportion, it is very difficult to find the "measurement" because nothing is composed of a single element. Instead, everything is composed of multiple elements. But we can use historical and international experiences and consider future changes to draw up a rough quantitative limit to guarantee coordinated development of surplus agricultural labor transfer.

**B. The principle of substitution.** As analyzed above, the weakening of agricultural labor in the course of labor transfer is an inevitable trend of economic movement and a normal phenomenon. But the weakening of agricultural labor must be preconditioned by the substitution of agricultural machinery. This is the principle of substitution for agricultural labor transfer.

May we ignore the principle of substitution because China has abundant labor resources, and rural areas, in particular, can fully satisfy the labor demand of agriculture? The answer is no. Agricultural labor transfer is different from the labor transfer of industrial departments. Laborers transferred from industrial departments are generally not needed or are unsuited for industrial departments. But laborers transferred from agricultural departments are mostly needed by agricultural departments, such as young, strong, educated, male laborers. After this part of labor is withdrawn from agricultural

departments, they must be substituted by corresponding machinery in order to guarantee the stable growth of agricultural production. At present, some places have failed to implement the principle of substitution and have engaged in extensive cultivation, causing agricultural labor productivity to decline and regress to such a degree that in some places farmers turn up soil with hand tools. This reflects the fact that where population growth is too fast, per capita land is insufficient, and there is an excessive supply of agricultural labor. However, in the long run it reflects a regression of productive forces and is an abnormal phenomenon. This is one of the two reasons. The second reason is that only the substitution of machinery can produce surplus agricultural labor, further increase labor productivity, and enhance the foundation role of agriculture. Therefore, even if labor supply is sufficient, we still need to implement the principle of substitution.

To implement the principle of substitution, we should pay attention to the utilization of coordinated agricultural machinery. Agricultural production is a department relying heavily on multiple operations. It is composed of many processes. Uncoordinated agricultural machinery can substantially reduce the substituting function of machinery. Without rice transplanters, agricultural labor cannot be replaced during the rice transplanting season in the rice production areas of southern China. Without harvesters, only limited labor can be replaced in northern China. To use agricultural machinery, we should also pay attention to bringing into play the multiple functions of agricultural machinery. At present, some agricultural machines have only single functions. For instance, heavy-duty combine harvesters are used only during the harvest season. Its low use rate has discouraged farmers from purchasing agricultural machinery. Other machines cannot operate normally because of the restrictions of energy and insufficient parts and accessories. Resolving these problems can help us better implement the principle of substitution in labor transfer.

**C. The principle of economic returns.** The transfer of surplus agricultural labor is an economic and social phenomenon. So we should pay attention to economic as well as social returns. We should also pay attention to ecological returns to ensure the unity of economic, social, and ecological returns.

It is obvious that agricultural labor transfer should stress economic returns. As far as individual laborers are concerned, economic returns are good as long as wage levels are higher than agricultural income. This is personal return. Judged from enterprise income, hiring a new laborer should help enterprises make extra income. So an increase in labor should help increase enterprises' economic returns. Otherwise, enterprises would suffer losses and be unable to survive. This is enterprise return. Judged from the viewpoint of individuals and enterprises, the economic returns of some activities are attractive. But judged from the viewpoint of macroeconomic

returns, they become undesirable. For instance, since China suffers from an energy shortage, building and expanding industrial enterprises that consume and demand a large amount of energy can worsen the all-round shortage of social energy supply. Some township mining enterprises waste mineral resources because their technological and managerial levels are behind. Judged from the viewpoint of macroeconomic returns, it would be uneconomical for these enterprises to hire more workers to absorb surplus agricultural labor.

Under the condition that only a limited amount of surplus agricultural labor can be absorbed by urban areas and nonagricultural industries, allowing surplus labor to be separated prematurely from agriculture and to wander between urban and rural areas often constitutes the main factor of social unrest. Some laborers rush to urban areas. They probably could find some kind of work there, but because of the shortage of transportation, housing, and commodity supply, they would create some social problems. So in agricultural labor transfer we should stress not only economic returns but also social returns. Otherwise, economic returns would not last very long.

If we prefer decentralized management to relatively centralized policy in labor transfer and if we encourage local transfer and implement the policy of establishing factories in every township and village, the development of rural industries would pollute the environment and destroy the ecological balance. Because of this, we should pay attention to ecological environment in agricultural labor transfer, prevent and reduce ecological environmental pollution and destruction, and stress ecological returns.

Economic, social, and ecological returns are one united entity. We should increase economic returns and unify microeconomic and macroeconomic returns under the prerequisite of protecting social and ecological returns.

#### Hog Cholera Outbreak Traced to Multiple Immunizations

40110023 Guiyang *GUIZHOU NONGYE KEXUE/JOURNAL OF GUIZHOU AGRICULTURAL SCIENCE* in Chinese No 1, 15 Feb 89 pp 31-32

[Article by Zheng Shihong 6774 0013 3163 and Yue Zhengzhong 2867 2973 0022, Guizhou Provincial Animal Epidemic Prevention Station, Guiyang; "Hog Farm Immunization Procedure Mix-Up Causes Outbreak of Hog Cholera Epidemic"]

[Abstract] In April 1988, disease epidemics occurred at hog farms in one prefecture after another in Guizhou Province following immunizations, with hundreds of hogs dying. After shoats at hog farms received inoculations against hog cholera and hog plague, as well as oral bacterin against paratyphoid fever, an epidemic resembling paratyphoid fever occurred that was attributed to the use of unsafe vaccine. Pharmacological testing of the same batch of vaccine for safety and effectiveness found the vaccine to meet specifications. A subsequent complete laboratory diagnosis determined the disease to be

hog cholera. It was finally concluded that the hogs concerned had been infected with hog cholera toxin even before the inoculations, and that some of the hogs were only in a latent stage of infection. The simultaneous use of hog cholera, hog plague, and paratyphoid vaccines had triggered the outbreak of hog cholera, which became epidemic.

This nearly two-page article details the epidemic nature of the outbreak, clinical symptoms and pathological changes in infected animals, and laboratory diagnostic procedures used, providing a brief summary and discussion of findings at the end.

### Breakdown of Investments To Develop Huang-Huai-Hai Plain

40060432b Zhenzhou RENMIN HUANGHE /YELLOW RIVER/ in Chinese No 1, 26 Feb 89 pp 3-8

[Article by Li Shumin 2621 2579 3046 and Yu Kongyan 0060 1313 3601, Planning Office, Ministry of Agriculture: "Summary of the Agricultural Opening of the Huang-Huai-Hai Plain"]

[Excerpt] In the year 2000, total investment will be 27.3 billion yuan, of which upgrading of medium and low output fields will be 20.0 billion yuan; making barren lands suitable for cultivation, 2.95 billion yuan; making barren lands suitable for forestry, 450 million yuan; improving grasses, 600 million yuan; and other investments, 3.3 billion yuan.

Divided by project, investment is as follows: irrigation and auxiliary equipment for farmland, 10.2 billion yuan, accounting for 37.4 percent of total investment; improvement of medium and low output soil, 5.2 billion yuan, or 19 percent; establishment of a basic agricultural service system, 1.8 billion yuan, or 6.6 percent; agricultural machinery purchasing and service facilities, 1.55 billion yuan, or 5.7 percent; making barren land suitable for agriculture, 2.95 billion, or 10.8 percent; plant and tree forestation, 1.6 billion yuan, or 5.9 percent; seeds and grasses, and improved grasses, 900 million, or 3.3

percent; aquaculture, 1.03 billion yuan, or 3.8 percent; agricultural and sideline product processing, 1.33 billion yuan, or 4.9 percent; other, 740 million, or 2.7 percent.

Of the total investment, the state will invest 11.9 billion yuan, or 43.6 percent; local allocations, 8 billion yuan, or 29.3 percent; the peasants themselves will raise 6.6 billion yuan, or 24.2 percent; foreign investment, 800 million yuan, or 2.9 percent. Of the state's investment, 7 billion yuan has been allocated mainly for non-administrative projects. The remaining 4.9 billion yuan will be attained from loans.

By the end of this century, after all improvement and renovation projects are completed, development of the Huang-Huai-Hai plain will reap big returns. It is reckoned that there will be the following new production capacity compared to 1987: grains, 25 million tons; cotton, 1 million tons; oil crops, 1.5 million tons; fruit, 4.5 million tons; meat, 3 million tons; and aquatic products, 1 million tons. Additional new commodity output will be: grains, 17 million tons; cotton, 980,000 tons; oil crops, 900,000 tons; fruit, 4.15 million tons; meat, 2.45 million tons; and aquatic products, 950,000 tons. Gross rural social output value will be 280.6 billion yuan, a 1.8-fold increase, of which, gross agricultural output value will be 56.9 billion yuan, up 83.4 percent. The peasants' per capita net income will be 1,027 yuan, an increase of 627 yuan.

Every 100 yuan invested will add the following additional new product capacity: grains, 92 kilograms (kg); cotton, 4.6 kg; oil crops, 6.6 kg; fruit, 16.5 kg; meat, 11 kg; and aquatic products, 3.7 kg. The aggregate increase of grain from 1989 to the year 2000 will be 162.5 million tons; the aggregate increased grain output for every 100 yuan invested will be 595 kg. Calculated in terms of output value, the 12 year accumulated increase for gross agricultural output value will be 369.8 billion yuan. Subtracting the normal increase of 119 billion yuan (a 2 percent annual increase rate) during non-investment times, the investment to output ratio is 1:9.19. The above-mentioned increase in output value excludes the increase in processing industry output value on agricultural products. Therefore, if investments for processing projects are subtracted, the investment to output ratio will then be 1:6.98.

**Analysis of Journalistic Freedom, Ethics, Law  
Political, Professional Qualities Need  
Improvement**

40050337 Beijing XINWEN CHUBAN BAO [PRESS  
AND PUBLISHING JOURNAL] in Chinese  
13 Feb 89 p 1

[Commentator's article on "Journalistic Ethics"]

[Text] Improving the quality of the journalistic corps is essential to furthering press reform because every aspect of press reform ultimately boils down to the quality and efficiency of press propaganda. If we tackle press reform while neglecting to improve the quality of journalists, press reform will become an empty phrase.

On the whole our press corps is of a good quality and has combat capability. Exploiting the news media's unique functions and strengths, the press corps in recent years has carried out many bold experiments with striking success to create an opinion climate for the four modernizations and all-round reform. But we should also see that as reform intensifies and the commodity economy grows, press work faces many new conditions and new problems. The press corps still falls short of meeting the demand put forward by the historic mission and fulfilling the brand-new tasks of press reform. We need to work harder still to improve its political and professional qualities.

Today reform has entered a critical juncture. Both "improvement" and "rectification" are under way. The circumstances are complex and conflicts abound. Reform has shaken up the interests of all parties. The development of the commodity economy and the furtherance of democracy and the rule of law have diversified social life tremendously. The situation demands that the news media provide correct guidance for social opinion and play a supervisory role. There is also a crying need for journalists to improve their theoretical standard and knowledge of policies, enhance their sense of law, and familiarize themselves with the principles of the commodity economy. They should also intensify their scientific analytical ability of a dialectical nature. In other words, they should significantly improve their political theoretical quality.

The professional ethics of journalists, which has come under extensive criticism in society these days, should be taken very seriously. The mass media have the sacred duty of conducting publicity among the masses and educating them. Those who are to teach others should become educated first. Journalists should discipline themselves strictly and be steadfastly honest, fair, and incorruptible. Influenced by the commodity economy, however, some journalists have been contaminated by "money worship," accept bribes, and practice "journalism for sale" and "vulgar commodity exchange." All this is totally at variance with the ethics of the journalist profession and has greatly undermined the authority and

tarnished the reputation of journalism. It must never be treated lightly. Tackling ethical education in journalism and improving the ideological quality and morals of journalists is truly an urgent matter.

A large number of young comrades joined the journalistic ranks as the profession grew. They are relatively well educated and have lively minds. This bodes well for our effort to put journalism on a sound footing. However, they lack practical experience and often have no dialectical understanding of highly complex social phenomena. They need political and professional training to overcome their superficial ways and fear of hardships, make good their lack of basic journalistic skills, and correct their tendency to be satisfied with a smattering of knowledge. We should improve their political and professional qualities without delay.

One of the responsibilities of the leader in a news unit is to exercise leadership in improving the political and professional qualities of journalists. It is a mark of leadership to take such improvement seriously and excel in it. Leaders of news units should be visionary and resourceful in utilizing the journalists. They should teach their young colleagues style and professional knowledge by personal example as well as verbal instruction so that the latter will mature quickly.

Journalistic units have a heavy responsibility in the new era. The more complex the work, the greater the need for leaders to excel in "playing the piano." They must learn to grapple with the main contradictions, pay attention to the essential aspects, and tackle the training and development of the corps of journalists. We must regard the furthering of press reform as an ongoing learning process. Through press reform, we must create a good corps of journalists and do a better job in every aspect.

**Criticism, Countercriticism 'Positive' Phenomena**  
40050337 Beijing XINWEN CHUBAN BAO [PRESS  
AND PUBLISHING JOURNAL] in Chinese  
18 Feb 89 p 2

[Article by Chen Yingge 7115 2019 7245: "Critical Journalism Triggers Explosion of Litigation Against Journalists"]

[Text] As I see it, the "scramble to sue reporters" is a natural and a positive phenomenon because it puts the supervisor and the supervised on the same legal footing. If news media, including the press, have the freedom to criticize, then the criticized have the freedom to countercriticize. The two go hand in hand. This helps ferret out the facts, clarify ideas, and educate the majority of people. Whether or not a report in the newspaper is accurate, there is a possibility that it would touch off countercriticism by the person who is criticized. Newspaper offices and journalists should respond by staying clear-headed and deal with the criticism in earnest. If the report does contain some factual inconsistencies, the journalist should be courageous enough to accept the

criticism, correct the mistakes, and take criminal and civil responsibility. If the report is found to be totally accurate and the person being criticized is willfully making trouble, the journalist should stand by his principles firmly and not be afraid of being taken to court. If he sues, countersue. We should let the judicial process run its course.

My suggestion that the "scramble to sue reporters" is a positive thing is based on these facts: For years many people remained legally ignorant as well as illiterate. They could not protect their legitimate rights and interests in accordance with the law and were too timid to file suit even when they were bullied. As China's socialist legal construction got under way in the wake of the 3d Plenary Session of the 11th CPC Central Committee, particularly after launching a national campaign to educate the people in legal matters, the masses have become more legally conscious and are now able to protect their legitimate rights and interests in accordance with the law. When their rights are violated, they come out and speak up to protect themselves using the legal weapon. This is historic progress and is also a situation many reporters had longed for.

Some comrades complain that the people's courts readily take up charges brought by a complainant. We cannot blame the courts for this. Under Article 100 of China's Civil Law General Rules, "a citizen shall have the right to portraiture. Nobody shall use another person's portrait to make a profit without the other person's permission." Article 101 stipulates that "citizens and legal persons are entitled to a good reputation. The personal dignity of a citizen is protected under the law. Damage to the reputation of a citizen or legal person by insult or by slander shall be prohibited." Chapter 4 of the Criminal Code also clearly spells out the criminal penalties for violating a citizen's personal and democratic rights. When the nation's judicial organs discharge their responsibilities in accordance with the law, they are not acting in a reproachable manner. If a journalist's own legitimate rights and interests are violated, he too will take any necessary actions to seek legal protection. Thus we can see that there is no need for journalists to feel hostile to the "scramble to sue them," complain endlessly, or lose confidence in supervision by public opinion.

When it comes to supervision by public opinion and critical reporting, you just "cannot please everybody." Some of those criticized are bound to be upset. Some people think they are untouchable. As soon as they are criticized, they bring charges. More than anything else, these people fear supervision by public opinion and seeing their name in the paper. Once their scandalous conduct becomes public knowledge, they are hell-bent on settling scores with the newspaper concerned. We must struggle firmly with these willful troublemakers and continue to expose their errors in newspapers and other news media in order to encourage healthy trends and discourage unhealthy ones. Certainly we cannot demand that every piece of critical reporting in the press be

totally accurate. Not only would this be unrealistic, but it would also amount to giving up supervision by public opinion. On the other hand, judging from the large number of court cases in which journalists lost, we have indeed failed to get our facts straight or violated other people's rights. Whatever the reasons for such a failure, we should do some soul-searching so that supervision by public opinion can proceed healthily.

As long as the press law remains on the drawing board, I think it is essential to the improvement of supervision by public opinion for us to intensify the self-improvement of journalists and news units and upgrade their political and professional qualities. First, journalists should acquire legal knowledge in earnest and clearly make out the legal difference between crime and noncrime. They should differentiate between what can be reported to the public and what cannot or should not. They should have a clear idea as to what constitute personal secrets and what violates personal rights so that they will not infringe on others' rights consciously or unconsciously. It should be realized that a considerable number of journalists have little or no legal knowledge. When a journalist cannot tell the legal distinction between legal person and legal agent, criminal and criminal element, reform-through-labor and reform-through-education, and the defendant in a criminal case and the defendant in a civil case, he will unavoidably make legal errors in his reporting, which might give others a reason to sue. Some comrades argue that as long as their critical reporting is factually accurate, they will be unassailable. This is a one-sided view. For example, a reporter knows of someone's personal secret and publishes it in the press. His report may contain no factual discrepancies, but it is its very factual accuracy that constitutes a violation of personal rights and makes the reporter open to legal liability. In foreign countries, the professional reputation of journalists is carefully guarded. When a journalist writes this kind of report, not only will his reputation be ruined, but he will also lose his job. Thus foreign news agencies have had the pertinent laws and regulations compiled into a book for distribution among young journalists as their first lesson after entering the profession. This practice is well worth our emulation. Second, reporters should not mention names casually in a piece of critical journalism. To do so in a newspaper with a circulation running into the hundreds of thousands and even millions is certainly no trivial matter and should be handled very cautiously. When there is absolutely no alternative to citing someone by name, the journalist must be objective and refrain from using any words that may damage another person's moral integrity. Education through labor, for instance, is a kind of administrative punishment, but some newspapers have used such expressions as "being thrown into jail" and "being chained and thrown into prison." Naturally those sentenced to education through reform find them objectionable. Third, some reporters do not understand the highly complex and intricate social life and are too ready to take a stand on the internal disputes within some units, using the press and other media to openly side

with one faction or support one opinion against another. This kind of reporting often deepens the difference and antagonism between the two sides and arouses resentment toward the reporter. In the end, he may be slapped with a lawsuit. Fourth, without the permission of the judicial organs, we should not rush to comment on a case that is still on trial because this would create the impression that the press is interfering in the judicial process and deciding the case in place of the court. If the verdict turns out to be different from the newspaper's opinion, the plaintiff, defendant, agent, counsel, and other people involved may create a disturbance at the court or newspaper office. In the end the reporter may also be taken to court. Of course, this does not mean that we cannot report on cases that are being tried. But we must be very careful and should not score a scoop for the sake of scoring a scoop in order to give ourselves a moment's satisfaction. Otherwise, we will find ourselves in no end of trouble in the future. Fifth, in my opinion, supervision by public opinion has barely begun. There is not enough of it to meet the need of reform, of the open policy, and of democratic political construction. Critical reporting may be different from straight reporting, but the basic goal of both is to achieve the objectives of struggle set by the party. Comrade Mu Qing [4476 7230] said, "Critical reporting must be constructive. The journalist's standpoint and focus must be constructive. The goal should be to help further the party's cause. The party organ is the mouthpiece and eyes and ears of the party and the people. Accordingly, any inaccuracies and discrepancies in supervision by public opinion are merely mistakes in reporting. They are not intentional and should not be taken personally, a point which the criticized should appreciate. As for journalists, they should promptly correct any inaccuracies. Some comrades do not take the initiative to rectify their errors, which only makes the object of criticism angrier and worsens the situation. Needless to say, it takes time to find out whether a mistake has been made, but delays are totally inexcusable."

On the one hand, we must firmly carry out supervision by public opinion, encourage reporters to practice critical journalism, and expose and criticize all corrupt phenomena. On the other hand, we must keep supervision by public opinion within legal and constitutional limits, protect the journalists' own legitimate rights and interests, and make sure the citizen's personal rights are not infringed upon. To achieve all this is no mean feat. Thus, leading organs at all levels should support supervision by public opinion and put it to good use in order to improve their work. They should concern themselves with and cherish the reporter's initiative. As soon as any factual errors are discovered in a report, they should point them out and let the newspaper office handle the matter properly instead of demanding perfection. The leading organs should harshly deal with people who reject well-founded criticism and meanly attack reporters, thereby lending support to reporters justly and forcefully.

**Institute Director Advocates Freedom of Press**  
**40050337 Beijing XINWEN CHUBAN BAO /PRESS AND PUBLISHING JOURNAL/ in Chinese**  
**28 Jan 89 p 4**

[Article by Tang Xujun 0781 4872 6511 based on interview with Sun Yupei 1327 6735 1014, director of the Institute of Journalism, Chinese Academy of Social Sciences: "Press Freedom Must be Protected by Law"]

[Text] Tang Xujun interviewed Sun Yupei, director of the Institute of Journalism at the Chinese Academy of Social Sciences and later wrote a report entitled "The Press: Freedom and the Law" based on the interview, which was published in the first issue of *The World of the Chinese*. Following is a summary of the report:

In 1644 John Milton, the English thinker, published an article entitled "On Freedom of Publication" in which he argued that freedom of publication is the "most important of all freedoms." Newspapers are a type of publication, while radio and television are extensions of publications. Consequently, we cannot separate freedom of the press from freedom of publication. The Hong Kong Basic Law is China's first piece of legislation that includes the idea of "freedom of the press."

Freedom of publication as advocated by Milton means freedom of thought. Thought and action are two different things. There cannot be freedom of action, but there must be freedom of thought. This is because only through ideological debates can mankind discover the truth and understand the world. The news media are vehicles for disseminating information and thought. Thus freedom of thought should include the freedom to disseminate information and thought. On the one hand, we must advocate freedom of the press. On the other hand, we must guard against its abuse. This makes it imperative that a press law be drawn up to clearly spell out citizens' and journalists' proper freedom and rights and the liabilities one will be faced with for abusing press freedom. Such provisions should be as specific as possible. A good press law should ensure that the news media fulfills their "dual function," namely, supervising the people above and guiding those below. In the United States, a major role of the media is to exercise oversight of the government. In the Soviet Union, the media are nothing more than tools of propaganda and public mobilization at the disposal of the party and the government. We should neither copy the Western practice completely nor imitate the Soviet method mechanically. Instead we should develop our own ideal model with Chinese characteristics. To do so, we cannot but tackle the press system and press reform. The press law has been on the drawing board for 3 years. There are three major sticking points: 1) Writing freedom of the press into law. Right now this does not seem to present a big problem; 2) Should the press law allow private newspapers to exist? A very controversial point; 3) Should news units be allowed to practice critical reporting independently on their own? In other words, should newspapers

be required to secure permission before they publish a piece of critical journalism? The way things stand now, it is easy to criticize from the top down and much harder to do so from the bottom up.

**Symposium Debates Reform of Legal System**  
*40030383a Beijing GUANGMING RIBAO in Chinese*  
*17 Mar 89 p 3*

(Article by Zhang Xinhao 1728 2450 1403)

[Text] A "Symposium on the Reform of China's Legal System" was jointly convened by the Legal Research Institute of the Chinese Academy of Social Sciences and the editorial department of FAXUE YANJIU (STUDIES ON THE SCIENCE OF LAW) on 22-23 February. The symposium discussed and proposed tentative plans regarding some important theoretical and practical issues regarding the reform of China's legal system.

**1. On the Issues of Policy and Law, Rule by Man, and Rule by Law**

Some comrades held that the most outstanding problem in China's legal system is that people do not abide by the law. The fundamental reasons behind this situation are "bureaucratic standards" and "party standards." Therefore, we must establish and perfect supervisory and restraining mechanisms for the ruling party, smooth relations between state organs and the ruling party in the handling of major national affairs, determine laws for political parties, and put ruling party activities on the track of the legal system.

Symposium comrades unanimously felt that we should thoroughly abolish rule by man and establish the concept of the supremacy of law. Individual comrades contended rule by law is not equivalent to "ruling the country by law" because "ruling the country" refers to a democratic society in which everyone is equal. Ruling the country via law refers, on the contrary, to using law as a tool for rule. Others expressed differences of opinion about "new authoritarianism."

**2. On the Constitution-Based System**

Some comrades held that China can learn from the principle of separation of powers. The power of the state must be separate from the justice system. Some proposed to reform China's National People's Congress (NPC), suggesting: 1) reform the election system; 2) reform the NPC organizational system; 3) establish bicameralism; 4) implement full-time NPC delegates; 5) convene regular meetings between NPC delegates and voters; 6) reform the ruling party's method of making recommendations to the NPC; 7) establish an investigation system in the NPC on important state matters; 8) establish an inquiry and impeachment system; 9) establish an NPC auditing system.

**3. On the Democratization and Openness of the Legal System**

Some scholars recommended democratizing the legal system, legalizing democracy, and giving a leading position to legislation pertaining to the constitutional rights and freedoms of citizens. Some comrades advocated publicizing legislative and judicial activities of state organs, as well as the government affairs, financial status, livelihood, and health status of certain national leaders.

**4. On the Legislative System**

Some proposed to strengthen the organization and the systemics of the legislative organs, improve the quality of delegates, fully utilize special committees and the specialization of standing committees, formulate procedural rules and procedures for drafting laws, and enact rules for technicalities of legislation. Legislation should be planned and laws should guide the advance of society. There should be enhanced legislative organs and concentrated legislative power.

**5. On the Judicial System**

Some advocated putting the guiding ideology of the procuratorate's "sole dictatorship" under overall supervision. Others suggested strengthening the utilization of legal precedents and the judicial interpretation work of the Supreme People's Court. Still others wanted to clarify the functions of the labor reform departments, making it impermissible to "focus only on labor but to make the individual enterprises responsible for their own losses and profits." Others called for improving the position of lawyers, saying that judicial and administrative departments should give them authority and not interfere with their business affairs.

**Suggestions for Nuclear Weapons Policy**  
40050426 Beijing ZIRAN BIANZHENGFA TONGXUN  
[JOURNAL OF DIALECTICS OF NATURE]  
in Chinese No 1, 10 Feb 89 pp 33-39

[Article by He Zuoxiu 0149 4373 1652: "On China's 'No First Use of Nuclear Weapons' Nuclear Strategy"]

[Text] I. China's Nuclear Strategy—the Nuclear Strategy of "No First Use of Nuclear Weapons"

China is currently engaged in a large-scale economic reconstruction, and it urgently needs a peaceful environment, but China is also faced with the situation in which the two superpowers, the United States and the Soviet Union, are confronting each other with tremendous nuclear capabilities. We need to ask: What kind of nuclear strategy should China have, and how should China explain the idea of its own "nuclear threat"? The opinions expressed herein are my own.

In fact, the nuclear strategy held by China is very clear and has often been publicly expressed, and that is that China holds the nuclear strategy of "no first use of nuclear weapons." On 25 March 1988 in a working report to the 7th People's Congress, Premier Li Peng of the Chinese Government reaffirmed that "China is a developing country. We have a limited quantity of nuclear weapons, which are entirely for our own protection. The Chinese Government has on several occasions proclaimed to the world that at no time nor under any circumstances will we be the first to use nuclear weapons. What is more, since this statement in the spring of 1986, we have not conducted any large atmospheric tests. The Chinese Government has repeatedly stated and continues to maintain that the two nations holding more than 97 percent of the world's nuclear weapons, the United States and the Soviet Union, should take the lead in stopping the testing, production, and deployment of nuclear weapons, and also that they should greatly reduce their nuclear weapons. Having achieved this, the necessary conditions would be created for an international nuclear disarmament conference to be held for all nuclear nations and that would have broad representation."

Why, then, does China adopt this kind of nuclear strategy? And how is China actually implementing this kind of nuclear strategy?

## II. Why Should China Adopt a "No First Use of Nuclear Weapons" Nuclear Strategy?

China's development of nuclear weapons began at the end of the 1950's. At that time, China had been isolated from the international community and had been surrounded by the two major nuclear nations, the United States and the USSR. Faced with such a grim international predicament, China had no choice but to correspondingly develop its own limited nuclear capability to counter the U.S.-USSR nuclear threat. These are the

historical reasons for China to develop its own independent nuclear capability at that time. But China is a peace-loving country, and the New China after the founding of the PRC has never acted nor intended to invade, pressure, or enslave another country. China is also a developing nation, with limited economic power. This determines that China's nuclear strategy can only be defensive and limited. This, then, is the nuclear strategy of "no first use of nuclear weapons at any time or under any conditions" that the Chinese government has often stated.

Why should China adopt a nuclear strategy that is defensive and not offensive? In addition to the fact that China is a peace-loving nation and that there is no reason nor any necessity for it to use nuclear weapons to attack other people, there is also the reason that China is a large country with a very large land mass, a large population, and a distinct political, economic, and military strength. Assuming that it would not employ nuclear weapons, there is no country in the world that can easily overcome China using a conventional military force. Therefore, even if China were invaded by powerful enemies there would be no necessity for it to use nuclear weapons to destroy an enemy's conventional force, and even in the event of a civil war there would be no need to use nuclear weapons to deal with its own countrymen.

One question worth looking into is: when China is threatened, provoked, or invaded politically or militarily by a nuclear nation, using the "first strike nuclear attack" nuclear strategy, may China make a sudden surprise attack, greatly eliminating the nuclear force and conventional strength of the opposing force, thereby ensuring a military victory? Not! In addition to the fact that this would entail accepting the political responsibility of being the "first to provoke a nuclear war," we would in reality be far from capable of such a thing. China is a developing nation, we have only limited strength, and we have stockpiled a number of very limited nuclear weapons, which are completely insufficient to counter the nuclear weapons of the superpowers. If we were to adopt a "first nuclear strike" strategy, we would not only be incapable of the goal of eliminating the enemy's nuclear capability, but we would also "get burned while playing with matches."

Some people feel that since China's current nuclear capability is still quite limited, we definitely should not, and cannot, use the strategy of "first nuclear strike." But in the sense that China's economy is rapidly growing and approaching world stability, the two superpowers alone, the USSR and the United States, are insufficient to maintain world peace or a balance of power. There should be a third; namely, the participation of the nuclear force of China as one of the Third World countries before world stability can be maintained. It is just as with a table: two legs are far from able to sufficiently support it, and at least three are needed to maintain stability. Moreover, this third leg must be of the same length. This is the so-called "nuclear triangle"

concept. And based on this idea, China should rapidly develop its own nuclear capability to achieve a triangular equilibrium with the USSR and the United States!

No! I cannot agree with this suggestion! China is a developing country and per capita gross national output value is only about \$300-400, while that for the United States is nearly \$20,000. That is a nearly 50-fold difference! The Chinese economy is growing rapidly, but this kind of growth must first satisfy the need for clothing, food, housing, and transportation of more than 1 billion people. How could we come up with huge amounts of capital to arm our troops as have the USSR and the United States! Even over the next 100 years, China's economy is not going to have that capacity. China has, in fact, spent a certain amount of money on the development of nuclear weapons. But this has been quite limited. In all, China has carried out only 33 nuclear tests, only about one-twentieth those of the US, while Chinese scientists and technicians are constantly strictly budgeting to save every cent. The success rate of China's nuclear testing is the highest in the world. Therefore, the development expenses spent by China on nuclear weapons is at most only 1-1.5 percent that of the United States. Some foreign sources have said that China has spent one-half its military funds for nuclear weapons, thus putting an enormous burden on the Chinese people. That is completely false. But if China were to adopt the strategy of the "nuclear triangle," that would sacrifice the standard of living of the Chinese people and would hinder the reconstruction and China's economy and culture. Current Soviet leaders have all seen that the Soviet military burden has been too great, and they are urgently changing their policies. What need do we have to retrace the path the Soviet Union has already tread?

The Chinese Government has stated on several occasions that "China is not trying to be a superpower." It should be said that China does have certain characteristics that could make it a superpower. China's population is one-fifth that of the entire world, the surface area is one-tenth that of the world, and it has significant real power from its resources and economy. But if those capabilities are compared with those of the USSR and the United States, there are still great gaps, and although in 100 years the real economic power of China will have grown, as far as the living standard that our people will have been able to attain, we will still be a country at a medium level. The Chinese people themselves have several problems that await resolution, so what need is there to greatly expand our military might and seek hegemony in the world? There is a certain glory in being a superpower for those countries that can be such, but it also brings heavy responsibilities. "China is not trying to be a superpower" is a long-held policy arrived at only through much thought and careful consideration. Said more directly, China's not becoming a superpower is better for both the Chinese people and the people of the world. In the United Nations, some Third World countries friendly to China once suggested that they hoped China could be the representative for protecting the

rights of the Third World. The rights of the Third World must be protected, but there is certainly no need for China to become the representative of the Third World. This is because China simply has no intention of becoming a superpower nation sufficient to contend with the USSR and the United States! What is this idea of a "nuclear triangle"? Does it mean that China should militarily be foremost a nuclear power by which to seek a position of real power equivalent to the USSR and the United States? Why should an idea like this be China's goal?

### III. China's "Nuclear Threat" Is a "Nuclear Threat" To Oppose the Undertaking of an Enemy Attack on "Soft Targets"

"No first use of nuclear weapons" is not only a dignified political guarantee, but has also been built on a cool assessment of opposing strengths. The use of nuclear weapons has the following three goals: The first is to eliminate an enemy's nuclear strength, that is, what we call "hard targets"; the second is to eliminate an enemy's conventional strength, for example, naval ship-borne forces and columns of land-based tanks; and the third is to eliminate an enemy's market economy and transport supply lines. The latter two goals are what we mean by "soft targets," but the nuclear capability is the component against which an enemy is most thorough in defense and that is least easily attacked. Destroying an enemy's launch silos or its nuclear submarines that are roaming through the high seas would require a nuclear capability several times greater. The soft targets are most susceptible to attack, the component against which it is hardest to defend. Even if President Reagan's "Star Wars" is successfully realized, it is not likely to be able to defend all soft targets. As soon as the soft targets have been struck, serious economic or political consequences will follow, and these are difficult for a modern nation to accept. In contrast, China has a greater capacity to withstand that. What is this idea of China's "nuclear threat"? China's "nuclear threat" is founded on the ability to launch limited retaliation against an enemy's "soft targets." Having this sort of "nuclear threat" would be sufficient to ensure our national security to a certain degree.

Some people might not agree with this opinion. They feel that since mankind has had armed forces for resistance, military attack and defense are matters that have permeated all military struggle. Since the United States has had nuclear weapons, the Soviet Union has also had nuclear weapons. Faced with this situation, the United States has surrounded the Soviet Union with a large number of military bases, building up the American "nuclear threat." The Soviet Union quite unexpectedly developed ICBMs, launched several satellites, and covered U.S. territory with a nuclear threat. On the one hand, the United States had to keep one-third of its nuclear weapons in the air to ensure that in the event of a sudden Soviet nuclear attack, it would still have the capability of carrying out a nuclear retaliation; on the other hand, they

also developed nuclear-powered submarines fitted with Polaris-class nuclear missiles, which then greatly increased the concealment and mobility of the American nuclear capability, breaking up the "first nuclear strike" threat of the Soviet Union. Following this, each side has made its surprise moves and nuclear warheads have become more and more numerous, until, according to statistics, both sides each has more than 20,000 nuclear warheads, sufficient to exterminate the other many times over! Why does each side require so large a stockpile? The reason is that both sides have as their primary goals the attack on each other's nuclear capability, both are defending against the other's "first nuclear strike," and both want to possess the strength to fight "one and a half nuclear wars" or to fight "two nuclear wars." Over the past few years, U.S. President Reagan also advocated the "Star Wars" plan, by which is intended to erect a "Great Wall" to defend against nuclear attack. Therefore, all these post-war arms races and various other measures are the normal manifestations of military attack and defense. China's declaration that it "will not first use nuclear weapons" is perhaps politically an enlightened "elevated posture," but militarily it is not necessarily a wise measure. The most effective way to protect China would still be by developing our own nuclear capability. Only by exterminating an enemy can one effectively preserve oneself. This is a military rule that has held throughout time for both the attack and defense sides of a military struggle!

Truly, as far as the rules of military development are concerned, the foregoing discussion is not likely to be controversial. But to support or limit the full development of the laws of military affairs, there are also the aspects of the laws of politics and of economics. To use the arms race between the Soviet Union and the United States as an example, both sides are aware of this heavy responsibility. The USSR especially has limited improvement in the standards of living of its people because of its excessive military commitment. This is reflected in the demands for political reforms and in the demand for alleviation of the internationally tense situation. Recently, the USSR withdrew its troops from Afghanistan, and this was not a serious military loss for the Soviet Union, but was foremost the consequence of political and economic laws.

Nuclear war is a war of international scale. It is even more prone to restriction by political or economic laws. The current most important political laws are that the peoples of both opposing countries and China are afraid of nuclear war, and all fear attack by nuclear weapons on soft targets. Politicians who are political representatives of the peoples of each country cannot but reflect that urgent hope of their people, cannot but represent all their people on this point, which is also to the benefit of those within ruling levels. Therefore, when we discuss the question of nuclear warfare, the majority of politicians cannot act lightly or rashly. During the time of the Cultural Revolution, certain adventurist extremists in the USSR dreaded the development of a Chinese nuclear

capability and advocated using "disemboweling" methods to annihilate China's nuclear base before it could become a "nuclear snake." Some people even consulted with the United States on this suggestion. After receiving this communication from the Soviets, the United States, which at that time was opposed to China, not only resolutely overruled this suggestion, but then notified China of this news through various channels. Premier Zhou Enlai of our government once made a very harsh statement regarding this. Why would the American Government of the time, in opposition to China, go so far as to oppose this suggestion? Because those politicians wanted to be responsible to their people and to history.

In a similar manner, Chinese politicians also adopted an extremely prudent attitude toward being directly or indirectly responsible for nuclear war. China certainly did not participate in the Nuclear Nonproliferation Treaty, nor was it a signer thereof. The reason China did not participate in this treaty was because the goal of the treaty was aimed at China. But China has certainly not taken an attitude of nonresponsibility regarding nuclear proliferation. China has received requests for nuclear aid from several friendly countries, which they have stated has been for reasons of defense. From a position of responsibility to the peoples of the world, China has politely refused these requests. A country or two has even been willing to pay the high price of \$2 billion for one Chinese nuclear weapon. Even though China is currently engaged in reconstruction and is in urgent need of hard currency, the politicians of China have not adopted a "short-sighted" policy in exchange for such immediate profits.

Many researchers have publicly noted that in a nuclear war there will be no victors! Actually, even though during a nuclear war one side might crush the other and therefore will have won the war, this would create new possibilities for a third party. There is an old saying in China: "When the snipe and the clam grapple, the fisherman profits!" We might ask whether a smart politician would rather be the snipe or the clam?

Therefore, what China needs is a limited defensive nuclear retaliation. This is not only more reasonable economically, but is rather more advantageous politically, and even has a significant military assurance. China should publicly announce that the concept of China's "nuclear threat" is to counter i.e., "soft targets" of opposing nations, and that whether in the air, on land, or on the seas, when China is one side involved, then when China's military forces, nuclear forces, or peaceful cities are hit by a nuclear attack, the "soft targets" of the enemy in question will be immediately hit by a "nuclear counterattack" by China. China should not entertain any notion of a "limited nuclear war," that is, where the two sides limit themselves to attack or counterattack targets, or limit themselves to the so-called tactical nuclear weapons. This sort of defensive nuclear strategy by China would not only be a nuclear strategy in accordance with the rules of military attack and defense, but would

also be a nuclear strategy that followed political rules, for the Chinese masses would rise up to oppose the governments of all countries "first" instigating a nuclear war.

#### IV. The Nuclear Policy China Should Adopt in the Event of the So-Called "Deep Cuts"

The United States and the Soviet Union are currently engaged in talks about nuclear disarmament. In December of this last year (1988), these two countries signed a treaty to eliminate medium-range and short-to-medium range missiles. And it is also possible that in the near future they will have reached agreement to reduce their strategic nuclear weapons by 50 percent. However, as Premier Li Peng has pointed out: "Even if the United States and the Soviet Union reduce their strategic nuclear weapons by half, the nuclear weapons they still possess will account for more than 90 percent of those left in the world, and the task of disarmament will remain an arduous one." Under these conditions, China will naturally still retain a limited capability for nuclear retaliation, that is, when China is attacked in a "first nuclear strike," we will do our best to find ways to at least preserve a certain number of nuclear warheads with which to threaten the soft enemy targets. The specific numbers will be in keeping with the "survivability rate" for nuclear missiles when China is undergoing a "first nuclear strike," as well as with the "percentage of hits" and "penetration rate" for Chinese missiles. This will be the smallest requirement for China in its nuclear strategy (its "nuclear minimum").

All over the world there are people with lofty ideals who have ardently embraced the cause of peace, and they are now advocating that after the United States and the Soviet Union truly realize the 50 percent reduction in strategic nuclear weapons, that they should go further by seeking to effect what are called "deep cuts." Professor Garwin has also suggested that the United States and the USSR should each retain only 1,000 nuclear warheads. This would mean that neither side would have the capability of wiping out the other's nuclear capability, but would also maintain a distinct balanced nuclear threat by which to realize the "nuclear security" of each, that is, to achieve the so-called "weak balance." To implement this goal, Professor Garwin has also suggested that England, France, and China also undertake corresponding reductions, where each would retain no more than 200 nuclear warheads; this would avoid upsetting the "weak balance" between the United States and USSR, which would then lead to a breakup of the "deep cuts."

From the point of view of ensuring world peace, this sort of suggestion is undoubtedly praiseworthy because it would greatly reduce the possibility of a nuclear war breaking out. If this suggestion had any chance of being implemented, China would reconsider its own nuclear strategy. China would undoubtedly not change its policy whereby it "does not seek to be a superpower," and

China would not use that situation to take the opportunity to expand its own nuclear capability, bringing it to a position equivalent to that of the US and USSR. This is because China has no intention of seeking a world nuclear hegemony. What China desires is after all a minimum, limited nuclear security. If all countries of the world were greatly eliminating their nuclear weapons, this would obviously improve the "survivability" of China's nuclear weapons, after which there would be no need to keep too many, that is, no more than needed for a nuclear counterattack. In the event of that new situation, there would be a specific figure for China's minimum nuclear security, which would depend upon the specific research of many experts.

Naturally, the ideas just expressed are derived under the following two premises: 1. the so-called "Strategic Defense Initiative" has yet to make any remarkable progress, and has therefore not yet changed the current situation of nuclear balance; 2. regions bordering China, including the current regime on Taiwan, has not shown any new nuclear capabilities, and if that situation should change, China could not but reconsider its nuclear policies.

#### V. China Will Work Hard To Completely Ban and Eliminate Nuclear Weapons, Chemical Weapons, and Other Large-Scale Destructive Weapons, and Will Greatly Reduce Its Conventional Forces

Under the premise that the rest of the world has yet to agree to completely ban and eliminate nuclear weapons, China has no choice but to continue to improve its own nuclear technology. China will continue to improve the ratio between its nuclear equivalence and the weight of warheads, developing nuclear warheads and missiles with a distinct defense capability, and improving the hit percentages and accuracy of its missiles; and it will comprehensively improve the qualities of smallness and lightness for nuclear weapons and their launch devices, and will add to their mobility and concealment. China will also oppose the use of outer space for military purposes, and it even more opposes carrying out an arms race in outer space. If this trend cannot be effectively turned around, China will also consider corresponding policies.

Naturally, the final goals for China are as Premier Li Peng has indicated: "China will go on as before, in keeping with all peace-loving nations, and will continue its struggle on behalf of stopping the arms race, on behalf of the complete ban and elimination of nuclear weapons, chemical weapons, and other large-scale destructive weapons, and toward greatly reducing conventional forces."

#### Author's biography

He Zuoxiu, male, born 27 July 1927 (lunar calendar) in Shanghai. Employed in the Chemistry Department of Shanghai's Jiaotong University 1945-47. He Zuoxiu graduated in 1951 from the Physics Department of

Qinghua University. Beginning in 1951, he served subsequently as assistant researcher, researcher, and assistant director at the following institutes of the Chinese Academy of Sciences: Modern Physics, Atomic Energy, High Energy Physics, and Theoretical Physics. He has studied particle

physics and theoretical physics research, as well as relevant topics on philosophy, economics, and the history of science, and has published various papers in those fields. In 1980 he became a Member of the Division of Mathematics and Physics of the Chinese Academy of Sciences.

## EAST REGION

**Zhejiang Governor Urges Advances in Science, Technology, Education**  
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(Speech by Governor Shen Zulun at the provincial science and technology conference, and the provincial education conference in Hangzhou on 1 March)

[Text] The reason the provincial party committee and the provincial government convened the provincial science and technology conference and the provincial education conference is to implement the guidelines of the 13th party congress and the 8th provincial party congress as well as to accelerate the development of science, technology, and education in our province. In 1985 we held a similar meeting called the Moganshan Conference. Since that meeting, considerable progress has been achieved in developing science, technology, and education in the province which we would like to affirm; in particular, many localities and units have gained many useful experiences from the endeavor. However, we also notice that so far the development in science, technology, and education in the province has not been fast enough to keep up with the demands of social and economic development. It is high time to change this situation. The purpose of the provincial science and technology conference and the provincial education conference is to sum up our experience, enhance our awareness, and reach a common understanding, in order to accelerate the development of science, technology, and education in the province.

In the following, I would like to elaborate on the major principles of the provincial party committee and the provincial government on advancing science, technology, and education in the province.

### I. Accelerating the Development of Science, Technology, and Education Is One of the Major Guiding Principles of the Province's Social and Economic Development Strategy

The leading comrades of the party Central Committee and the State Council have, on many occasions, pointed out the importance of science, technology, and education to the whole social and economic development. The 13th party congress elevated science, technology, and education to a paramount strategic position. Many far-sighted citizens, Overseas Chinese, and foreign friends are very interested in the development of science, technology, and education in China. As we all know, the success of all developed countries as well as fast-growing Third World countries has much to do with their attaching great importance to science, technology, and education. The global trend of technological revolution and the development of international politics and economy make the competition in economy, technology, and personnel become more and more acute. In this situation, our

country and nation, in a bid to become prosperous and advanced, must accelerate the development of science, technology, and education and readjust and bring economic development in line with the advancement of science and technology and the improvement of workers' skills, while pressing ahead with our reform and open policies and promoting our economy. At present, the main problem we face in economic development is extremely low profits from economic activities. We must put an end to widespread expansion of reproduction achieved mainly through constant increase of funds, materials, and labor. Instead, we should go for intensive operation and rely on the advancement of science and technology as well as scientific management to raise economic benefit. The current need to improve the economic environment and straighten out the economic order puts us in such a position that we must alter our development strategy, turn pressure into power, seize whatever opportunity there is, and try out new ways. Our province has a large population but limited land and resources. Looking from a long-term perspective, with the population ever growing and natural resources ever diminishing, we will have to depend on science and technology to solve our problems. Furthermore, for the purpose of boosting spiritual civilization and the quality of our people, we also have to rely on the advancement of science, technology, and education. The provincial party committee and the provincial government believe, after much discussion, that we must give science, technology, and education the foremost priority and arouse people's awareness of the importance of science, technology, and education, especially that of the leading cadres at all levels. The sooner they realize their importance, the better they can work on it.

### II. To Develop Science and Technology, It Is Necessary First of All To Raise People's Understanding About the Need To Rely on the Advancement of Science and Technology

Science and technology must be geared to the needs of the economy. In terms of gearing science and technology to economic development and hinging economic development on science and technology, what we should tackle first at the moment is the "depend on" issue. In the past few years, we have already done a lot in restructuring science and technology institutions, mobilizing the initiative of scientists and technologists, and promoting lateral cooperation between science research institutes and universities and production enterprises. Although many problems are yet to be solved in connection with gearing science and technology to the economy, on the whole, the mechanism for that purpose has been established and the enthusiasm of scientists and technologists has been aroused. The main problem now is to increase the dependence of economic development on the advancement of science and technology and thereby increase its pull on the advancement of science and technology. In recent years, the commodity economy has taken root in China and the market competition mechanism has begun to gain momentum, which, to a certain

extent, improves the environment for the demands for advancement of science and technology, and increases awareness to pursue advancement of science and technology for economic development. However, there is still a lot to be done, in thought as well as in practice, in connection with basing economic development on science and technology. The basis for economic development has not yet been shifted to the advancement of science and technology. Industry-wise, our products suffer from poor quality, low grading, and outdated technology; many enterprises still habitually pursue economic growth through expanding production capacity and increasing production output. Agriculture-wise, many experiences for increasing output and scientific and technological results have not been well disseminated. There are objective factors behind this situation. For instance, low pricing of grains and other farm products takes incentives away from farmers; because of a general shortage of virtually everything, there is no fear that products won't sell and, consequently, enterprises neglect to pursue the advancement of technology; the contract system that overemphasizes revenue and operation causes enterprises to become shortsighted; some enterprises are overburdened economically; etc. In other words, enterprise, as the principal body that relies on the advancement of science and technology, has not yet set up a stimulating mechanism within and without. It takes effort and time to change this situation.

However, in recent years, there have been great disparities in economic development and scientific and technological progress among the various cities, prefectures, counties, and enterprises in our province. At the meeting, many have spoken about the relatively good experiences of individual localities and enterprises in relying on scientific and technological progress. Their experiences show that under the same circumstances, some localities and enterprises are able to create their own environment favorable to the promotion of scientific and technological progress and have achieved outstanding success in economic development by relying on science and technology. The key to their success lies in the fact that the leaders of these localities and enterprises have a better understanding of the importance of science and technology. The reason that the industrial output of Lanxi, Xinchang, and a number of other cities and counties has continuously risen by large margins for several years running is because they have attached great importance to raising their scientific, technological, and management level. Their products are relatively good and their production structure sound. The leaders in these counties and cities from the city and county level down to the departments in charge of economic affairs and the enterprises have all attached importance to and taken appropriate measures within their power to promote scientific and technological progress. In agriculture, the example of Haiyan County amply explains why under the same policy and circumstances, one particular

county has achieved results unmatched by many other cities and counties. It is because Haiyan has strengthened its leadership and made efforts to spread science and technology.

At the meeting, a briefing was given by Shangyu County. During the past several years, the county has promoted relatively close scientific and technological cooperation with over 100 universities, colleges, and scientific research units; formed lateral ties to more than 600 large enterprises in scientific research and production; engaged more than 500 scientific and technological personnel from outside the county to work in the production enterprises; selected and sent 1,000 backbone village and town enterprise technicians to receive training in universities and colleges; and trained a large number of its own peasant technicians. Since 1984, the county has won 183 prizes for scientific and technological progress, including 63 ministerial and provincial-level prizes. Of the seven ministerial-level prizes won by our province's village and town enterprises, one was won by Shangyu County. Of the three state prizes won by the village and town enterprises, two were won by the same county. Shangyu has created a number of high-quality enterprises that have achieved outstanding results in scientific and technological progress and in internal management and has produced technologically sophisticated and highly competitive products. Thanks to these enterprises, the whole county's industrial development is forging ahead. Shangyu is an example of the success of relying on scientific and technological progress. The leaders of Shangyu County know how to look to the future. They know that, compared with its big neighboring counties and cities, including Shaoxing, Xiaoshan, Yuyao, and Cexi, Shangyu is poor in natural resources, backward in economic base, and late in starting. Therefore, to develop its economy and catch up with the others, Shangyu must explore new ways and advance its starting point. This requires Shangyu to attach greater importance to science and technology. It began with raising the understanding of county-level leaders and leaders in departments in charge of economic work of the importance of scientific and technological progress. It has paid particular attention to raising the quality of enterprise leaders and middle-level management personnel, and enhancing their consciousness about science and technology. From the county, the townships, and down to the enterprises, the leaders have implemented a series of incentive policies to encourage inventions and quality products as well as the discovery, employment, and training of talented people. Scientific and technological personnel hired from outside the county have reflected that Shangyu County has created an environment where knowledge, science, technology, and talent are respected.

The experiences presented by Shangyu County and other localities at the meeting tell us that improving the environment for scientific and technological progress is very important. The current campaign to improve the economic environment, rectify the economic order, and strengthen the reform and restructuring has brought

about an atmosphere very favorable to improving the overall environment for scientific and technological progress. However, creating such an overall environment takes time, and we cannot and must not just wait for it to happen, but must rely on our own efforts to create a local environment in our own locality or enterprise favorable to promoting scientific and technological progress. The important thing is raising the understanding of leaders at all levels and in the various departments and enterprises of the importance of relying on scientific and technological progress. When their understanding has been raised, they will then attach great importance to relying on scientific and technological progress, consciously take measures in support of scientific and technological progress, and mobilize and organize the various professions and trades to support scientific and technological progress. The leaders of Shangyu and other cities and counties have told us that by so doing, each and every unit can create its own environment in which knowledge and talent are respected and science and technology are relied on, and that they will be able to mobilize the resources from various quarters to accelerate scientific and technological development with concerted efforts to better serve their own economic development.

While raising the understanding of relying on science and technology, it is also necessary to improve the mechanism of economic operation such as perfecting the enterprise contract management system, including enterprise technological progress as an item of evaluation in rating the performance of contracted management, increasing the enterprises' scientific and technological development funds, setting up prizes to reward enterprise technological progress, and so on and so forth. It is necessary to gradually institute a system both inside and outside the enterprises to provide a source of pressure and motive force for the enterprises. If the "Regulations on Promoting Technological Progress in Industrial Enterprises," for which views have been solicited at the meeting, is adopted, and if everyone joins hands to implement them, the regulations will surely have a positive impact on promoting technological progress in the enterprises.

Now we will talk about how to inspire the initiative of the scientific and technological personnel to serve the economy. Experience has shown that the key lies in whether we can treat the scientific and technological personnel with sincere respect, respect their knowledge, understand and trust them, and do a good job at assigning them work and missions that will give full play to their role. Some people hold that all we need is good food and money to inspire the initiative of scientific and technological personnel. This notion actually shows a lack of understanding of scientific and technological personnel. Their greatest satisfaction does not lie in money or material rewards. What they want is their knowledge to be of service to society, to be respected and supported, and to be something valuable in itself. Government leaders at all levels and leaders of various departments and enterprises must understand this wish

of theirs and help them realize this wish by giving them full support and trust. The government and enterprise leaders should also educate their workers so that they will show understanding and support for scientific and technological personnel as well. We must advocate and encourage scientific and technological personnel's great sense of responsibility toward society. Of course, we must also pay great attention and make great efforts to improve the scientific and technological personnel's living conditions and do our best to help them solve some practical problems. We must make things easy and convenient for them, particularly when they are at work conducting scientific research or tests. Some city and county government and enterprise leaders told me that these things can be done as long as we attach due importance to them. If the scientific and technological personnel's problems cannot be solved for the time being because of the limits of the objective conditions, they will understand as long as we have tried our best to solve those problems.

To bring about more solid integration of science and technology and economy, we must continue to strengthen our reform of the scientific and technological system, including introducing the competition mechanism into the scientific research units and improving the leadership system. In this way, we can enhance the scientific research units' vitality and momentum in facing the economy. At the meeting this time, the provincial science and technological committee invited the meeting participants to review and give their opinions on the drafts of "the Provisional Measures Governing the Contracted Managerial Responsibility System in State-Owned Scientific Research Organizations" and "the Provincial Regulations on the System Whereby the Directors of the State-Owned Independent Research Institutes Assume Full Responsibility." In addition, we must make further efforts to develop the technological market and expedite the application of technological innovations. In recent years, the province and various localities have done a great deal of work and made some headway in organizing the market and building scientific and technological development companies. However, some great problems still exist in this respect. Therefore, we must continue to develop the scientific and technological market. We should resort not only to market forces but also to administrative power in our attempt to organize the application of the scientific and technological innovations under effective leadership. We should also coordinate the low or middle-level tests of some scientific and technological innovations using administrative power so as to accelerate the development and transformation of scientific and technological innovations.

### III. Pay Attention To Formulating the Industrial and Technological Policies and Lay Down the Direction and Key Points of Our Province's Scientific and Technological Development

In developing our province's science and technology, we should emphasize proceeding from the province's economic development needs. The meeting was held mainly

to enhance the people's understanding that we must rely on science and technology for our progress. The meeting has yet to reach the stage of making a concrete and in-depth study of our province's industrial and technological policies and the direction and main points of the various aspects of scientific and technological advancement. We must consider the province's industry mix from the perspective of the general economic development strategies, including the strategy for developing export-oriented economy. As far as the industrial structure is concerned, we should, in accordance with our own characteristics, stress developing the kind of industries and products that have more to do with technicalities, use less material and energy, and are expected to increase in value. In determining the direction and key points of the province's scientific and technological development, we must proceed from the province's reality and base our decision on the readjustment of the industrial structure and the general trend of scientific and technological progress. We must change the current situation in which our province's scientific and technological undertakings lack overall planning and specific objectives. The urgent task facing us now is that we must pay close attention to formulating provincial industrial and scientific and technological policies and determine what the leading industries and strategic products should be. This is an extremely important part of our work to build macro-control over the provincial economic and scientific-technological undertakings. The provincial planning, economic, and science and technology commissions and other related departments should conscientiously carry out this task and listen to the opinions of experts and scholars from all sides to make this task a success.

According to preliminary suggestions of departments concerned, to achieve scientific-technological progress in our province, we must concentrate on the following tasks: 1) Develop agriculture on a stable basis, especially grain, animal feed, and vegetable production, to increase the supply of agricultural products; 2) Reform and upgrade the leading traditional industries; 3) Increase major export-oriented industries and products; 4) Explore new energy resources and energy-saving technologies; 5) Develop new materials and material-saving techniques; and 6) Develop new and high-tech industries. At the same time, we must attach equal importance to the study of soft science and to fundamental research. As a major task of the scientific-technological development, we must give prominence to and gain mastery over the technologies that have great bearing on our province's economic development and that play an important role in rationalizing the industrial structure, developing export-targeted economy, and enhancing our capacity for sustained economic development. All these tasks mentioned need further discussion.

In order to expedite technological advances and raise the technological level, we should earnestly encourage importing sophisticated equipment and advanced technologies that are beyond our current ability to make or develop and that will greatly boost provincial economic

development. In importing technologies and equipment, we must no longer attach undue importance to hardware and equipment or neglect software and technology. We must not pay attention only to imports, but to learn and absorb the imported foreign technologies. We should consider learning and absorbing an important task of our plan to develop science and technology. The import task will be tackled jointly by the provincial planning, economic, and science and technology commissions and other relevant departments, which will conduct scientific evaluation and discussion to make sure that the limited foreign exchange funds will be used to the best results.

We must popularize major scientific and technological innovations and advanced technologies in a well-organized way. In recent years, many county and city government leaders have paid renewed attention to promoting the technology for increasing agricultural production. They have achieved certain success. We must combine agrotechnological research, experiments, and training with the promotion campaign. In promoting industrial technologies, departments concerned must also draw up a joint promotion plan, adopt necessary administrative measures, and earnestly carry out the plan.

#### IV. Raising the Management Level Should Be Considered an Important Way To Make Scientific and Technological Progress

Management is also science. Knowledge about management and thoughts on management have existed since ancient times. However, it was not until 100 years ago that management began to develop as a branch of science. Management science has played a tremendous role in promoting development in economy, science, technology, and other areas. Management science also has great potential. We are very backward in terms of modern scientific management. We are backward in technology, and even more backward in management in a certain sense. Modern science and technology, as well as modern management, are decisive factors for improving economic results. They are an important support for China in advancing toward a new stage of economic growth. Many of us still do not realize the importance of management. Between management and technology, it is usually the former that plays a leading role, hence the view that "technology accounts for 30 percent, and management, 70 percent." I think at least we should not underestimate the role of management. As a means to get organized and promote coordination, management exerts a great impact on technological progress. So it is reasonable to regard management as the science of sciences. Judging from the practical situation of Zhejiang, my direct impression is that there is tremendous potential in management, enterprise management in particular. Therefore, we should regard raising the management level as a very important task. It requires little investment but can yield great results. Generally speaking, the people of Zhejiang are more serious about

operation and management. If we spend more efforts on management, we will eventually develop a unique advantage for our economy.

In learning scientific management, we can look at other people's experiences, but we should always take our own situation into consideration. Successful practical experiences should be summarized, organized, and enhanced before they are used to train management cadres. Management cadres should also know some technology, including technical knowledge of modernized management and the technology of the field under their management. Therefore, we should select and train management personnel from among technicians. Such a contingent of management personnel, well versed in technology, is bound to considerably boost technical progress and scientific management in our province.

#### V. Party and Government Leadership at All Levels Should Regard Education as a Fundamental Task

All in all, scientific and technological development, economic revitalization, and social progress depend on the quality of workers and training of large numbers of qualified personnel. Education is the foundation of science and technology. We also depend on education to improve the quality of our citizens. An important strategic plan of the provincial party committee and the provincial government is to improve education and make greater efforts in intellectual development.

More people have come to understand the importance of education. It is very encouraging to see the emergence, in recent years, of models that distinguish themselves in education in our province. From experience we know that education is not the work of any one department. It is of great importance to the overall interest because it affects scientific and technological progress, economic development, and national revitalization. Since "education is the basis of a 100-year plan," it is undoubtedly a long-term and fundamental task in national construction. To boost it requires the persistent efforts of successive governments. Since education is an undertaking of the whole society, it requires the involvement of the whole society, and forces in all sectors should be mobilized and organized to support education. Therefore, educational work should occupy an important position in the work of party and government leadership, and major responsible comrades of party and government organs should have a better understanding of education. Only with a better understanding of education can they give priority to education when they handle the overall situation. This holds true for localities where conditions are harsh. For instance, Kaihua and Panshi are not economically developed. Panshi is even a poor county. However, a fine educational situation has emerged there thanks mainly to major party and government leaders who attach importance to education.

We also know from experience that strengthening leadership and relying on the masses should be the fundamental measures for ending educational backwardness in our province. Society and the masses have enormous potential for educational development. We can work out this potential through proper guidance and inducement, and they will work miracles. An extremely moving example is provided by the construction of school buildings and renovation of hazardous structures in Kaihua County. As we know, this county is in a mountainous area and not prosperous. Leaders of the county knew that the low quality of workers and lack of qualified personnel were the primary causes of slow economic growth, and that they should pay attention to education to correct this situation. So they made an appeal to "plant trees and educate young people simultaneously." In order to "educate young people," they started with the construction of school buildings and renovation of hazardous structures to provide the essential conditions for education. Since 1985 the county has appropriated 4.5 million yuan; and townships, towns, and villages have also offered more than 3 million yuan of investment for this purpose. Together with the funds raised from all quarters, they built 150,000 sq meters of primary and secondary school buildings and renovated more than 20,000 sq meters of hazardous structures. Leaders of the county, districts, townships (towns), villages, and all the departments concerned did their best for this undertaking. The funds earmarked by the county for building dormitories for township cadres were used by some township governments to build teachers' dormitories. Governments of some poor townships vacated the government building and turned it into classrooms of the township junior middle school. Government personnel themselves moved into an old and ramshackle building to work. This prompted many people to donate logs, bricks, tiles, and money, while those without money exchanged eggs, corn, and beans for money. Others participated in voluntary labor. Some villages even used the reserve grain they had accumulated for years. The problem of hazardous schoolbuildings and shortages of classrooms in primary and secondary schools was quickly solved. To make sure that the school buildings had been renovated and hazardous structures eliminated, county leaders even sent cadres, in four separate motorized vehicles, to survey all 513 educational facilities throughout the county and conduct acceptance tests for each of these facilities. Some 35 days later, they were finally positive that hazardous buildings had been eliminated. Only then did they report to the provincial authorities, saying they had completed the task of renovating hazardous structures in primary and secondary schools. From here we understand the spirit demonstrated by leaders of Kaihua County in attending to educational work and in solving the problem of school buildings and hazardous structures in primary and secondary schools. We are really moved by this spirit, which I call the "Kaihua spirit." Moved by this spirit, the masses were mobilized to donate money and articles, even under difficult circumstances, and to participate in labor in support of education.

Leaders in Quzhou City also attach importance to education. They have made great efforts to thoroughly solve the problem of hazardous buildings in primary and secondary schools. The masses were also moved by their spirit. An elderly man of Anren Township in Quxian County donated to the school for the construction of school buildings the money with which he had intended to buy a coffin for himself. He said: "Housing for the dead can accommodate one person, whereas housing for the school can accommodate thousands of people. This money should be donated." What a moving story. So we see that when the leaders use their own practical actions to show the masses the great importance of education, the masses will quickly understand it and release great powers. We should not underestimate the latent enthusiasm among the masses for promoting education. To arouse this enthusiasm, the leaders should strengthen leadership. Developing education will remain an empty slogan if leaders of a locality do not give priority to education, and if they only make empty talk and do not take personal interest in education, mobilize the masses, or set good examples for the masses. Therefore, the provincial party committee and the provincial government maintain that to promote education, the first thing is to still to make our leaders at all levels, major leaders in particular, better understand education and take up this task of fundamental importance to the overall situation. Our major party and government leaders at all levels have very arduous tasks to shoulder, and many of these tasks require them to take a personal interest. The provincial party committee and the provincial government fully understand the difficulty of their work. However, for the sake of our cause and for the sake of the long-range plan, since they are holding the positions and responsibilities, we have to entrust to them the heavy task of strengthening leadership over education. I think major party and government leaders at all levels should regard it an honor to be able to make contributions to the cause of the people in this aspect.

#### **VI. Reform of Education Must Be Accelerated**

Now, education is incompatible with the needs of social and economic development. Apart from the fact that education work is not put in its due place, another reason for this incompatibility is that the guiding thought for education work is divorced from reality. In view of this, while enhancing the understanding of the position and role of education, we must correct the erroneous tendency that education is divorced from the needs of social and economic development. Education must serve the modernization program and must be closely linked to social and economic development. Only thus is it possible to bring about a self-sustained development cycle where our society, economy, and education promote one another and achieve common development. To achieve this goal, education must be reformed, and the development of education must be linked to reform. That is, education must be freed from the confines of the old traditional concept. This is not only an urgent task before the education department, but also a major

demand to be met in gearing up the leadership over the work of education. The reform of education should include rectification of the guiding thought for running schools, adjustment of the education structure, reform of the curricula and teaching methods, and improvement of the quality of education.

First and foremost, we must adjust the structure of education. The development of education must meet the needs of social and economic development, and at the same time, it is restricted by the economic condition. Under circumstances where investment in education is limited, we must stress the benefits derived from developing education and see to it that every cent put into education will produce the best possible results. In our province, the present structure of education is quite unreasonable and cannot meet the needs of our social and economic development. In the current economic construction and especially in the vast countryside, large numbers of competent personnel at the primary and middle levels and numerous qualified laborers are required. In our province, only some 3 percent of the people in a certain age bracket can enter regular institutions of higher learning, whereas nearly 97 percent of them have to work in society after finishing junior or senior middle school education. The quality of the latter category of people has much to do with our work of building material and spiritual civilizations. Because of this, we must be realistic in adjusting our education structure and put the development of basic education and primary and secondary vocational and technical education in a prominent position. After discussions held by the provincial party committee and government, it has been decided that we must concentrate our efforts for now and for some time to come on developing the 9-year compulsory education and vocational and technical education. We must resolve to do our utmost to see to it that the 9-year compulsory education is popularized in our province before the year 2000. As for cities and counties opening to the outside world, most of them must basically popularize such education by 1990. The provincial education commission has worked out a concrete plan for this. After approval by the provincial people's congress, the plan must be put into execution in various localities. In addition to the 9-year compulsory education, the provincial government is prepared to make all-out efforts to develop vocational and technical education. This is a strategic measure to invigorate Zhejiang's economy. As many comrades know, West Germany has depended on its vocational and technical education to develop its economy. By developing vocational and technical education, it has trained a large number of capable technical workers with specialized skills, as well as a rather high work ethic. This has produced an irreplaceable effect on improving the people's work proficiency, guaranteeing their product quality, and ensuring the competitiveness of their products in the international market. It is for this reason that vocational and technical education is viewed as a "secret weapon" that West Germany has used to develop its economy. During the past few years, our province has

made considerable achievements in developing vocational and technical education, primarily secondary vocational and technical education. Facts have proven that the development of vocational and technical education can play a very conspicuous role and is apt to lead to effective results in promoting the local economy. With the development of vocational and technical education, some localities have begun to change the decadent idea of despising such education. In the past, when we talked about qualified personnel, we insisted that they be university graduates or graduate students. As a matter of fact, however, those with secondary vocational and technical education can often play a remarkable role in production. Some of our comrades have seen the benefit of developing vocational and technical education. We are prepared to sum up the experience of various localities and take further measures so as to achieve a still greater development of vocational and technical education in Zhejiang. Basic education and vocational and technical education should be combined into an organic whole. Such a combination will best serve the purpose of linking education with the economy. Of course, this does not mean that we can ignore higher education. Actually, our higher education has become in relatively good shape during the past few years. Our main work at present and for some time to come is to implement the principle of stabilization and improvement. While controlling the scale of development of higher education, we should do our best to improve school facilities and raise the quality of education. In the meantime, we should adjust the structure of our higher education, pay attention to the results of running schools, and train more people specializing in various fields to meet the urgent needs of our social and economic development. In addition, adult education is an effective measure to raise the scientific and technological competence of our present personnel and to enable them to acquire new knowledge so that they will catch up with the world in the development of science and technology. Moreover, adult education is directly concerned with improving the quality of laborers. It requires less money, but can produce good results. Our province should devote much effort to this education. The distribution of education expenses should be adjusted in such a way as to meet the needs of the adjustment of the education structure. The initiative of various social sectors in developing education should be so guided that their efforts will be devoted to strengthening basic education and supporting vocational and technical education.

The unhealthy guiding thought for developing basic education is a striking problem that has existed for a long time. The erroneous tendency of preparing students for entering higher schools as the sole objective of basic education is far from the actual needs of our social and economic development. Also, this tendency does not meet the requirements of the broad masses of students, but adversely affects sound development of education. We must be determined to change this state of affairs. In particular, it is imperative to make clear the correct guiding thought for 9-year compulsory education and to

change the objective of this education from preparing the students for higher schools to raising the quality of the whole nation. The 9-year compulsory education is a national education, that is, a compulsory education that every citizen must receive. It differs in nature from the education for selecting competent people. It is aimed at all children who have reached school age, requiring them to reach certain standards of morality, cultural knowledge, work skills and physical fitness. Our present school education is aimed exclusively at enabling students to climb from primary schools to middle schools and from middle schools to universities. This is an education for bringing the students to schools at the next higher level. Of course, it is necessary for a few people to go to universities, but we should not take this as our guiding thought for developing education. Students have a heavy burden, and those who have been trained successfully are no more than experts in passing examinations. After graduation, they cannot work in factories or do farming, nor can they adapt themselves to the environment of society. If this state of affairs is not changed quickly, our work of education will turn into a dead end. That will only cause the quality of the labor force to deteriorate further, making it unable to meet the needs of socialist modernization. To set a correct guiding ideology for education, leaders of schools and education departments must, first of all, have a correct understanding. The system for rating schools must reflect a correct guiding ideology for education. Instead of being commended, leaders of schools and education departments that lopsidedly chase after a high proportion of students being sent to study in schools of a higher grade but neglect the quality of general education for the whole people will be sternly criticized and ordered to correct the mistake within a certain time limit. Those who refuse will be transferred. In implementing the 9-year compulsory education system, various governments, particularly the education administration departments, must always bear in mind the goals of compulsory education, take the interests of all youths into account, and strive to raise the quality of education for the whole people as well as the overall quality of their students.

The quality and method of teaching must also be improved. Our schools as well as their teaching methods have been practically divorced from the needs of economic construction and from the needs of their own localities. The subjects being taught must meet the needs of society, and attention should be paid to training the students in labor skill and practice. A middle school graduate must master production skill in one or two subjects. Middle and primary schools must offer courses of local interest to make their students sufficiently understand their native land and the motherland in general and to instill in their students patriotism as well as a love for their native land and a sense of responsibility toward the motherland as a whole. Education as we know it today cannot train qualified personnel nor raise the quality of the labor force. If left unreformed, our education system will not be able to meet the needs of our social and economic development even though we

have a good education environment, and this will dampen the enthusiasm of departments at all levels and that of the society as well in running schools. For this reason, the provincial party committee and the provincial government have sternly instructed the provincial education commission to accelerate education reform. There should be a sense of urgency in accelerating the development of education as well as in accelerating the reform of education. Recently, the State Education Commission asked Zhejiang to be one of the participants in a nationwide pilot project experimenting with the curriculum and teaching material reform. We must do a good job in the pilot project. In teaching, we have to correct the method of cramming and mechanically memorizing. We must reduce the students' burden of studying but must arouse their interest and foster their confidence in learning by teaching them useful skills. The various localities have informed us that many students have dropped out from junior middle schools. Besides the reason that many shortsighted parents let their children drop out of school to work for money in the present developing local commodity economy, another important reason is that our educational ideology and teaching methods are incorrect, causing many students to fail to catch up with the rest of their classes or to lose their faith in learning because what they learn in school is of no use in society. If this kind of teaching is not corrected, we will continue to have many dropouts, and our efforts will not be able to achieve the expected results even if we are determined to implement the compulsory education system.

To raise the quality of education, it is very important to step up teacher training. We must strengthen teacher education. The normal schools must expand their enrollment in the countryside and implement directional enrollment and training, and their graduates must be able to teach in the rural areas. Besides training new teachers, the teachers colleges and universities must also be responsible for refresher training for veteran teachers. Plans must be worked out for retraining unqualified teachers by turn so that they meet the required standard. In addition to raising the quality of education, it is also necessary to strengthen moral education to implement the education policy in an all-around way. In addition to raising the students' quality in culture and science, it is also necessary to raise their ideological and moral standards. To accomplish this, it is necessary first of all to step up ideological and political work in the contingent of teachers so that they can influence their students with their own model conduct and can play a dual role as both teachers and models.

Moreover, the schools' interior management must also be reformed. However, not enough time will be available at this meeting to study this problem any further, but it is hoped that the various localities will explore new ways to deal with the problem.

### VII. Input on Scientific, Technical, and Educational Undertakings Must Be Increased

Enterprises should shoulder the main responsibility for increased input in science and technology. Under the provisions of existing policies, which allow a plant to retain 1 percent of its sales volume as a technological development fund, we should be able to raise a considerable sum of nearly 1 billion yuan. However, the problem lies in the failure of many enterprises to pay due attention to technical input; they diverted the money to replenish their working funds or other purposes. Therefore, further efforts must be made to enhance the awareness of enterprise directors, urging them to ensure that the money is used for technological development. Hence, the following rules are adopted: Where enterprises do not intend to use their technological development funds immediately, departments in charge of the enterprises at higher levels may handle the funds under a unified plan, with the enterprises reserving the right to use the money whenever they want. Moreover, outstanding enterprises that have been commended for their advanced science and technology may retain up to 2 percent of the sales volume for technological development. Besides, enterprises may allocate funds from their after-tax profit retention for developing new products, and so forth. In fact, there are many ways for increasing input on scientific and technological development. At the crux of the problem is the fact that enterprises must be genuinely aware of the necessity to increase input on science and technology and must make good use of the scientific and technological development funds already available. Further efforts must be made to introduce and facilitate the transformation, popularization, and application of the fruits of scientific and technical research projects. Local governments and departments at all levels must do their utmost to support the three scientific and technological development companies already in existence in Zhejiang.

Increased input is the material foundation for invigorating education. Therefore, efforts must be made to gradually set up a new system of increasing input on education through various channels, with state allocations and education surcharge as the mainstay of this system, supplemented by revenues from tuition and fees as well as school-run enterprises, community-administered schools, and educational funds. It is necessary to encourage and guide the masses to invest in intellectual resources. Zhejiang has increased state allocations on education in recent years and will ensure the "two increases" this year in line with the requirements of the central authorities. In addition, the provincial government recently decided to increase the education surcharge tax rate in cities and towns from 1 percent to 2 percent of the "three taxes" and allow local governments to determine the tax rate on their own, according to local conditions. Moreover, 1.5 percent of extrabudgetary funds will be levied to supplement public expenditures for compulsory education. Along with economic development and improvement in the financial situation, we

will, of course, continue to increase state allocations for education and, at the same time, will strive to change the practice of relying on the state alone for educational expenditures. Efforts must be made to raise funds through other channels to alleviate the strains on educational budget. It is necessary to do away with the outdated concept of holding the state entirely responsible for developing education, and foster a new concept of increasing input on education jointly by the state, society, and individuals.

Here, I would like to call attention to the problem of getting rid of hazardous school buildings and improving other school conditions. Marked results have been achieved in removing hazardous buildings in middle and primary schools in Zhejiang, and many counties and cities should be commended for their keen attention to this problem. The provincial government has called for determined efforts to basically eliminate hazardous school buildings before the end of this year and has decided to set up a special fund to subsidize and reward counties and cities performing a good job in revamping hazardous school buildings despite financial stringency. The problem should be solved mainly by city and county governments as well as local people. Localities where hazardous school buildings continue to exist will be investigated. Where this problem is basically solved, efforts should be made to improve other conditions of the schools within available financial resources.

Finally, I would like to discuss the question concerning remuneration for teachers. Of all trades and professions, teachers and public servants or government administrative personnel receive relatively meager pay and lead a frugal life. In spite of the government's efforts to raise teachers' remuneration in recent years, their income remains low, and some of them live in poverty. To improve teachers' remuneration, the state should take action to step by step raise their wages. However, as far as this question is concerned, both the mass media and leaders should refrain from making excessive statements because the financial stringency does not allow a marked increase in teachers' remuneration. In order to promote educational undertakings under the difficult financial situation, we should exert even greater efforts to stimulate teachers' sense of social responsibility and harness their enthusiasm. Educators should be fully aware of the role of education in social and economic development, and be willing to endure temporary difficulties for the sake of education. We are confident that our education will be a great success; educators will receive greater concern and support, and the milieu of educational work will be further improved. Input on educational undertakings is actually an advanced economic investment, which will yield results after a period of time for developing and reforming education. Both the state and various quarters of society should do their utmost to allocate funds for educational investment. Needless to say, contribution by the large numbers of educators who endure temporary difficulties is also a form of input on

education. We are fully confident that, as time goes by, the situation in various fields will be improved and a healthy cycle of educational and economic development definitely be achieved.

The above are the major guidelines on the scientific, technical, and educational work that have been discussed by the provincial party committee and the provincial government. Many other problems awaiting solution have not come under study yet. I would appreciate comments on any impropriety I may have just made. All in all, we generally agree that the vast numbers of cadres and people of our province have lofty aspirations, even though Zhejiang is in a relatively disadvantageous position in terms of natural resources, limited state allocations, and the restrictions in preferential policies in education for the coastal provinces. Can we rely on ourselves in developing scientific, technical, and educational undertakings through hard work? We hope to make unremitting efforts over a protracted period of time to seek advantages to make up for our disadvantages in scientific, technical, and educational undertakings. Let us work together for this common goal!

## NORTHWEST REGION

### Critique of Xinjiang County-Level People's Congresses

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[Article by Cao Xiluan 2580 5032 2940, Xinjiang Uyghur Autonomous Region People's Congress Standing Committee Office: "Several Problems in the Building of County-Level People's Congresses in Xinjiang"]

[Text] Pilot projects for the building of county-level people's congresses in Xinjiang Province have been run ever since the fourth quarter of 1979. As of the end of 1981, one after another, an overwhelming majority of county-level people's congresses throughout the region have established people's congress standing committees as permanent bodies in accordance with the law. This is a milestone in the establishment of socialist democratic government in autonomous regions. Now let us completely review and reexamine the present situation in the building of county-level people's congresses, distilling experiences and lessons from it. This holds important real significance for finding a feasible means of building socialist democratic government that is in keeping with national and local circumstances.

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County, municipal, and district primary-level governmental authority is a binding force linking the top to the bottom in China's organization of state political power. During this period of change, when a new system is replacing the old, how well it functions can have a direct and wide-ranging effect on progress in building the

country's economy and democratic government. Although county-level people's congress standing committees are still in the initial stage after 9 years of building and development, they have scored major accomplishments in arousing the enthusiasm of the broad masses throughout the region for the building of socialism, in ensuring that reform and all endeavors will be carried out smoothly, in ensuring that all nationalities are masters in their own house, and in doing a large amount of work in consolidating and developing a stable and unified political situation. Practice has demonstrated that local people's congress standing committees have vitality. The various powers that the national constitution confers on county-level people's congress standing committees have been preliminarily implemented. This is manifested in the following ways:

The constitution, laws, administrative ordinances, and resolutions of higher level people's congresses and their standing committees are substantially observed and implemented in all counties, municipalities, and districts. Numerous county-level people's congress standing committees are able to organize inspections around implementation of national laws, examining actions in violation of the law, and, in accordance with the law, correcting regulations of people's governments at the same level that are not consistent with national law.

The scheduled convening of people's congresses and standing committee meetings is, to a certain extent, an execution of supervisory responsibilities. Sixty-six percent of county-level people's congress standing committees throughout the region are able to hear on schedule the work reports of people's governments, and of law courts and procuratorates. They are also able to consider and discuss political, economic, educational, scientific, cultural, health, civil administration, and nationalities matters of major importance in the local administrative region. Most county-level people's congress standing committees act on the basis of local government suggestions and discussions to approve local area national economic and social development plans as well as some budgetary changes.

In accordance with legal procedures, people's congresses and standing committees decide on the staffing and organization of state agencies, and take charge of the selection of congress delegates at the county and township levels. In this selection, all jurisdictions adhere to a plurality vote as needs dictate. Regionwide, people's congress standing committee chairmen and county, municipality, and district heads elected by plurality vote number 63.3 and 55.6 percent, respectively. In addition, the method of trying out plurality voting among local nationalities in accordance with realities in the region assures that each nationality will have its quota of people in state institutions as provided by law. Some county-level people's congress standing committees also exercise dismissal authority. They dismiss and replace incompetent delegates, and they either veto or transfer to other duties those submitted for appointment who are deemed not suitable following assessment.

In discharging their duties according to law, people's delegates have gradually come to function as hubs and bridges. Eighty-two percent of the more than 13,900 county-level people's congress delegates throughout the region have established delegate groups. Their activities outside of congress, such as carrying out inspections and conducting investigations and study, reflect and give expression to the wishes and demands of peoples of all nationalities, and they both help and give impetus to government improvement of work.

A majority of county-level congresses have made ready the basic conditions necessary for carrying out work. Among the region's 92 county-level people's congress standing committees, 47.8 percent have more than 20 cadres available, the maximum number being 35 cadres. Cadres in county-level people's congress standing committees having a college or middle school education or better account for 49 percent of the total number in official agencies. Following the convening of a region-wide people's congress standing committee work committee in 1986, there was a marked strengthening of the self creation of county-level congress standing committees in our region, and substantial improvement in personnel staffing, administrative expenses, and office and living conditions. At the same time, all jurisdictions also established and perfected various work system in the preliminary establishment of rules to be followed.

## II

Various problems remain in county-level people's congresses in the region, the most important of which are as follows:

### I. Supervisory authority has not been effectively implemented.

Supervision of the law and of the work of the people's government, the courts, and procuratorates is the most important function of county-level people's congress standing committees. It is an ongoing task. How well this supervisory function is exercised has a direct bearing on the image of the people's congress standing committees. However, the following problems exist in the exercise of supervisory functions by county-level people's congresses in the region: (A) Supervision is generally weak. Full exercise of people's congress supervisory powers is not done in accordance with provisions of the law. Specifically, the public reports a lot of "going through the motions," and "making empty gestures." This is demonstrated in a fairly concentrated and conspicuous way in the main arena in which delegates exercise power, the national people's congresses and standing committees. In addition, the county-level people's congresses in some places remain unable to convene meetings on schedule, and hold only two or three standing committee meetings a year. This hurts the full exercise of their functions.

**2. Stylization of the content of meetings.** People's congress meetings in different places and at different levels are all very much the same, and are too short as well. During the period of meetings, there is very little possibility for delegates to make substantive changes in government fiscal budgets, or national economic and social development plans. Specific decisions of a legal nature that people's congress sessions make are not given the serious attention and implementation they deserve following the meeting.

**3. Meetings are held too late.** Consideration of and decisions about problems are frequently belated actions. Furthermore, the lack of investigation and study impairs the quality of decisions. During meetings, quite a few delegates either rarely speak or they ordinarily simply "listen to, look at, then pass" legislative work reports. They do not genuinely play a role in discussions or take part in policies.

**4. Discussion methods are stereotyped, delegates' views not being conscientiously accepted.** Large meetings and group discussions have been the two methods used for a long time. Delegates from different occupations and having different backgrounds are mixed together, with the result that no challenging of opinions is possible, and penetrating discussion is very difficult. When a delegate's speech contains real knowledge and deep insights, some units and departments do not conscientiously accept them as coming from the people who are masters in their own house, and some adopt a perfunctory attitude toward them.

**5. The people's delegates do not exercise their franchise to the full.** First, they lack an understanding of those who have been appointed and elected; and second, there are too many names on the presidium-provided list of people to be elected or appointed (including the plurality vote differential), and too little latitude for acceptance of candidates that delegates have jointly nominated. Third, when the candidates that the delegates have jointly nominated are at variance with the designs of the leaders, they are sometimes canceled as "being employed." Fourth, in some places personnel selected are not recognized because they are not presidium-nominated candidates.

**6. People's delegates cannot effectively execute other duties conferred by law such as the rights of interpellation and of recall.** In some places, the so-called "right of interpellation" has changed, in fact, to listening to reports.

**7. Inspection of formalism.** Although people's congress delegates currently conduct inspections, these inspections consist mostly of listening to reports. They frequently devolve into a mechanical procedure, no solutions being found to real problems; thus, the more inspection the less the popular trust. Units inspected go

from hope to disappointment, or even angry words may be spoken. Some delegates and committee members have said that they would hesitate to inspect any more.

**(B) Organs with authority lack the organizational support needed to execute the powers of their office.**

Since 1979, CPC committees in people's governments at all levels throughout the autonomous region have exerted great efforts to develop the work of people's congress standing committees. In just the period between October 1986 and the present, more than 300 county-level people's congress standing committees have been newly staffed. This has been no easy task. Nevertheless, all jurisdictions report that they need "an additional one-third increase in personnel" above and beyond the present staffing "in order to substantially satisfy work requirements." We believe that even were this figure to be met, the important historical tasks for which people's congress standing committees are responsible still could not be met.

A survey of the personnel makeup of people's congress standing committees in the region shows that directors and deputy directors of county-level people's congress standing committees throughout Xinjiang account for an average 24 percent of the total number of personnel. Personnel engaged in personnel and translation work, typing, accounting, and cashier functions number 17 percent; and other support personnel number 20 percent, a total of 61 percent in the foregoing three categories. This means that the total number of cadres engaged in day-to-day work is less than 40 percent of the total personnel complement. In some counties the actual number of people so engaged is less than 10, making it very difficult to take on more work. Furthermore, in 20 percent of counties, more than 40 percent, and as many as 60 percent of cadres are 50 or older, and as more and more cadres transfer from CPC committees and government organizations to their "final post" on a people's congress standing committee, the percentage of the old and infirm is bound to gradually increase. At the same time, since some people's congress standing committees continue to number as part of their personnel complement those who previously served but who have lost elections, left, or retired (accounting for 32 percent of the total number of personnel in one case), this means a further shortage of an already extremely limited number of staff. In addition, in an overwhelming majority of places there is little money available for cadre expenses. In some, it is even difficult to find funds to pay for meals for those attending standing committee meetings or for delegates performing inspections. To summarise the foregoing, it is not difficult to come to the conclusion that a key problem in organizations having authority "in name but not in fact" is "having the will but not the way"; they lack the organizational support necessary to discharge their authority.

**(C) Various factors limiting and affecting the work and the building of people's congress standing committees.**

In past analyses of problems with county-level people's congresses, it was generally said that the problems were attributable primarily to a failure of understanding, meaning that there was insufficient understanding of the importance of building a distinctively Chinese socialist democratic government, and that it was necessary to continue to intensify publicity about the nature, position, and function of the people's congress system and people's congress standing committees. No doubt, this is true, and this will be an important task for us for some time to come. Nevertheless, we believe that the problem of understanding aside, there are reasons in other regards as well that limit and adversely affect progress in the work and the building of people's congress standing committees. First, because of the long-term lack of separation between party and government in China, the political system lacks a necessary mechanism for balancing powers. There are many gaps in supervisory work at all local levels. Second, once local people's congress standing committees were set up, specific legal regulations were lacking with regard to procedures, scope, methods, substance, and form of supervisory work. Third, state institutions and work personnel who ought to be subject to supervision would not accept supervision, and there were no clear-cut legal provisions on which people's congress standing committees could rely for the legal execution of their powers. Fourth, in people's congress standing committees, organizations were generally lacking, professionalism was poor, and there was insufficient personnel. In particular, there were problems with some constituent members lacking willingness to participate in government, and lacking the capacity to take part in governmental discussions. In addition, CPC committees and government agencies controlled all authority in fact, with the result that people's congress standing committees frequently found it difficult to function fully.

In addition, since most people's congress standing committee leaders are CPC committee and government retirees, and since most working personnel are elected by various jurisdictions, although there is no lack of outstanding persons among them, by comparison with CPC committee and government cadres at the same level, quality is not very high for a substantial portion of personnel. Consequently, there is a shortage of key leadership cadre and key professional cadre in the prime of life, and this is frequently a major reason for the inability of people's congress standing committees to carry out their legal functions according to law.

Furthermore, that leaders of people's congress standing committees may not serve on CPC committees is yet another major reason why they are unable to perform their tasks.

### III

A current view holds that local people's congress standing committees, principally county-level people's congress standing committees suffer from inherent deficiencies resulting from their having been established in haste

and prematurely. Since this is a fundamental issue directly affecting the growth and development of people's congress standing committees, it must be examined thoroughly.

These comrades maintain that the extent to which democracy develops is largely determined by the actual level of sociopolitical, economic, and cultural development. China is still in the preliminary stage of socialism in which its economy and culture are backward, its social productivity level is low, its commodity economy is very undeveloped, and it does not yet provide ample material conditions for the development of socialist democracy. Correspondingly, the public's democratic sense and concepts of law are hazy; hence the level of political consciousness necessary for the development of democracy is lacking. For a long time, there has been no separation of party and government. The party has taken the place of government, powers have been overconcentrated, and the role of organs of state power has been restricted by party organization and the ideological level of party leaders. On the other hand, the main goal for founding local people's congress standing committees is delegation of central government authority, the better to give free rein to the two positive attitudes [the positive attitude of the city in supporting the countryside, and the positive attitude of the rural area in self-reliance]. However, practice has shown that because of the profound effect of material conditions in society and the gradual strengthening of local interests under the traditional system, if central government delegation of authority goes beyond certain limits, there is no benefit for the building of democratic political institutions. Consequently, various conspicuous difficulties and problems exist today in both the work and the building of people's congress standing committees. If they are not genuinely able to exercise the authority with which they are endowed by law, becoming organs of state power in name only, there can be no changes of a fundamental nature within a short period of time.

On the basis of the foregoing evaluation, they further propose that, in view of the level of productivity and democratic political conditions in a substantial portion of the country, these county-level people's congress standing committees be temporarily disbanded. Once provincial-level people's congress standing committees are able to fully exercise their functions, further consideration should be given to their reconstitution.

We maintain that, in an overall sense, these views are not in keeping with the general trend toward reform and the development of democracy in China today. As long ago as 1980, Comrade Deng Xiaoping warned the whole party as follows: "Continued development of socialist democracy and perfection of the socialist legal system is a basic policy that the central authorities have pursued unflaggingly since the 3d Plenary Session, and about which positively no vacillation will be permitted in the future."<sup>11</sup> He also stressed the following:

"The greater the development of socialism, the greater the development of democracy." Comrade Deng Xiaoping's above thesis is the guiding principle and the guiding thought for our building of a strong democratic legal system. We should act according to Comrade Deng Xiaoping's instructions to make people's congresses and their standing committees organs of state power in fact as well as in name, so that they can play the role they should play in the all-around deepening of reform, and in the great undertaking of building a distinctively Chinese socialist democratic government, rather than weakening or even abolishing them. So how should we go about further strengthening the building of county-level people's congresses?

(1) Propaganda and education have to be improved to increase understanding. We must further strengthen propaganda and educational work right now to improve understanding of the character, position, and function of people's congresses and their standing committees. We must overcome the erroneous idea of regarding people's congresses as a frill, or as a "way station" for separated and retired cadres. Propaganda and education cannot be limited to talk; key points must be highlighted and vague generalizations overcome. In particular, it is necessary to heighten understanding and respect among party and government leading cadres at all levels for the work of people's congresses, so that they understand explicitly that people's congress standing committees play a role in national political and economic life that no other state organizations can play. Leading cadres in party organizations and state administrative agencies at all levels should regard the work of people's congress standing committees as a part of party work, and elevate the quality of such work to a status where it realizes the party's aims, and where it sincerely serves the people. In personnel assignments, making decisions about major issues, the carrying forward of democracy, and such key matters in particular, the views of people's congress standing committees must be genuinely respected. Perfunctory performance and superficiality must be guarded against. The position and function of people's congresses must be genuinely understood in terms of the constitution and laws, awareness of the constitution thereby penetrating people's minds.

(2) Major changes must be made in the present cadre structure of people's congress standing committees. Perfecting the organization and replenishing cadres is a form of organizational support needed in order for people's congresses to realize their historical mission. Unless this is done, fulfillment of the various historical tasks for which people's congresses are responsible will be basically impossible. Therefore, CPC committees at all levels must gradually change away from the past practice of looking at the assignment of cadres to people's congress standing committees purely in terms of looking after people. Cadres who are unable to continue to work, or who are approaching or have already reached retirement age should no longer be "assigned" to people's congress standing committees. In addition, major

efforts should be made henceforth to provide professional cadres, specialized cadres, and particularly key work cadres, organizationally providing sustained support to people's congress standing committees so that they can exercise their powers. Preparations that should be made to provide cadres, and whether a cadre corps responsible for this important task should be established are a key link in the future work of people's congress standing committees.

(3) Strengthening of CPC committee leadership of people's congress standing committee work. The building of socialist democratic politics without firm party leadership is out of the question. The CPC Central Committee has repeatedly reiterated that the party's role in leading the life of the country, particularly leadership of political ideology, consists of leadership of plans and policies. Practice shows that one effective way in which to get organs of state power to better accept party leadership and fully exercise their functions is to permit persons of responsibility in people's congress standing committees to take part in the leadership work of CPC committees at the same level, ideally as CPC committee deputy secretaries, or serving concurrently as CPC committee secretaries when circumstances permit. Persons unable to serve as CPC committee secretaries or deputy secretaries should not hold positions as chairmen of people's congress standing committees. Likewise, personnel who lack the necessary confidence to be elected by the broad masses of the people should not serve as CPC committee secretaries or deputy secretaries. In order to guard against and reduce the bad effects that the holding of such concurrent positions may create in society, in the conduct of his party, and state political life, any comrade in charge who concurrently holds a position on a people's congress standing committee should act only in the capacity that the nature of the work being done requires. Whenever the work is primarily that of an organ of state power, he should act in his capacity as the director of the people's congress standing committee. Unless extremely necessary, he should not act in both a party and a government capacity at the same time. The reverse is also true.

(4) Energetic strengthening of the supervisory work of county-level people's congresses. Full exercise of supervisory functions is a regular and most important task of county-level people's congresses. Quality of supervisory work performance should become a major criterion for judging the work of a people's congress standing committee. Thus, simultaneously with the energetic strengthening of supervisory work and efforts to shape a strong supervisory system, a concrete and readily applicable supervisory procedure should be formulated so that people's congress standing committees at all levels have guidelines to follow and a legal basis for solving real problems. In the course of practice, we should use strengthened supervisory organizations, and the strengthening of legal supervision and work supervision, particularly legal supervision, to give impetus to bicameral legislative work in order to effect a real change in the image of people's congress standing committees.

(5) Improvement of the quality of constituent personnel in people's congresses and their standing committees. Steady improvement in the political and professional quality of county-level people's congress personnel is an objective requirement for the perfection of the country's people's congress system, for the expansion of socialist democracy, and for the development of the socialist legal system. It is also a foundation for improving the work of people's congresses and their standing committees. As the personnel who make up people's congresses, the quality of people's congress delegates plays a key role in carrying out the functions and raising the prestige of state organs of power and their permanent agencies. We must destroy old concepts and traditions on this matter, and proceed from the reality of strengthening socialist democracy and the country's current representatives for a steady heightening of people's representatives' sense of responsibility and position as masters, and their ability to take part in government and discuss political matters. At the same time, we should move in the direction of delegates performing their function full time, gradually training up a group of new style people's statesmen suited to the nation's circumstances.

(6) Uphold the principle of openness of county-level people's congress political activities, and strive to increase the degree of opening up of the work of people's congress standing committees. This is an objective necessity for the building of socialist democratic politics; therefore, people's congress standing committees at all local levels should actively create the conditions that the 13th Party Congress called for, using newspaper publications media and various other channels so that the activities of people's congresses and their standing committees gradually become open. County-level people's congress standing committees can also proceed from local realities to build news release systems, a system for auditing meetings, and a social dialogue system so that "the people know about major situations, and the people discuss major issues."<sup>3</sup> This will enable the work of people's congress standing committees at all levels throughout the region to be supervised by the mass of the people and people's congress delegates from beginning to end.

(7) People's congress standing committees should gear their work to the central tasks that the party has set.

Gearing work to the central tasks that the party has set includes mostly two things as follows: First, people's congress standing committees must uphold productivity standards. This is consistent with the whole party's focus on the building of the economy. People's congress standing committees' diligent exercise of powers conferred by the constitution and laws, making their main duty the strengthening of economic legislation, readjustment of various economic relationships, vigorous safeguarding and promoting development of social productivity, and ensuring and promoting the smooth conduct of an all-around deepening of reform is completely in keeping with the basic socialist mission. Second, people's congress standing committees should proceed on the basis of the character of their own work and their legal position, make the most of their own advantages, and unite people of all nationalities in a common struggle to realize the goals that the party has set. They should overcome the current practice in some places of "several teams all doing the same thing, and several wheels revolving together." Comrades in charge in people's congress standing committees should be allowed to divide up work and assign a portion to separate groups, stay at selected units to help improve its work and gain first-hand experience for guiding overall work, or even stand in for government leaders in taking charge of administrative work. Local people's congress standing committees at all levels should always adhere to the idea that the development of socialist democracy and the strengthening of the socialist legal system is the key task, arranging their own work accordingly. We believe that only the conscientious exercise of all powers in accordance with the constitution and provisions of the law can make the greatest effort and contribution to realization of the party's central task.

#### Footnotes

1. Deng Xiaoping: "Implement the Policy of Readjustment to Ensure Stability and Unity." (See *Selected Works of Deng Xiaoping*, p 319).
2. Deng Xiaoping: "Implement the Four Basic Principles." (See *Selected Works of Deng Xiaoping*, p 154).
3. Zhao Ziyang: "Advance Along China's Distinctive Socialist Road," pp 44-45.

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